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AN ANALYSIS OF RURAL COMMUNITY DEVELOPMENT  
CORPORATION BUSINESS VENTURES:  
THE ECONOMIC PERFORMANCE OF SELECTED MANU-  
FACTURING VENTURES ORIGINATED THROUGH COM-  
MUNITY RESOURCE RATIONALIZATION AND  
ENTREPRENEURIAL SEARCH

Ernest Richard Nordtvedt

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AN ANALYSIS OF RURAL COMMUNITY DEVELOPMENT CORPORATION BUSINESS  
VENTURES: THE ECONOMIC PERFORMANCE OF SELECTED MANUFACTURING  
VENTURES ORIGINATED THROUGH COMMUNITY RESOURCE  
RATIONALIZATION AND ENTREPRENEURIAL SEARCH

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Master of Science  
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A Dissertation Submitted to the School of Government and  
Business Administration of The George Washington  
University in Partial Fulfillment of  
the Requirements for the Degree of  
Doctor of Business Administration

Signatures of Committee:





AN ANALYSIS OF RURAL COMMUNITY DEVELOPMENT CORPORATION  
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A Dissertation submitted to

The Faculty of

The School of Government and Business Administration  
of The George Washington University in partial  
satisfaction of the requirements for  
the degree of  
Doctor of Business Administration

September 1975

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Edwin Timbers, Ph.D.

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1975

Ernest R. Nordtvedt





THE SCHOOL OF GOVERNMENT  
AND  
BUSINESS ADMINISTRATION  
of  
THE GEORGE WASHINGTON UNIVERSITY  
announces the  
Final Examination  
of  
Ernest Richard Nordtvedt  
for the degree of  
DOCTOR OF BUSINESS ADMINISTRATION  
Tuesday, June 24, 1975, at 10:00 A.M.  
in  
Conference Room 200  
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FIELD OF STUDIES: Business Administration

DISSERTATION: "An Analysis of Rural Community Development Corporation Business Ventures: The Economic Performance of Selected Manufacturing Ventures Originated Through Community Resource Rationalization Versus Entrepreneurial Search"

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## ABSTRACT OF DISSERTATION

### An Analysis of Rural Community Development Corporation Business Ventures: The Economic Performance of Selected Manufacturing Ventures Originated Through Community Resource Rationalization and Entrepreneurial Search

Initial anti-poverty efforts under the Economic Opportunity Act of 1964 focused on the provision of services such as education and legal and manpower training. The concept of local control placed goal-setting, planning, and execution of programs within the community. The emphasis shifted from the provision of services to community economic development with the 1967 amendments which formalized the Special Impact Program (SIP). The SIP was intended to make "appreciable impact" in reducing dependency, unemployment, and community tensions, and to create permanent benefits which would survive termination of government funding. Community control, which is basically more social or political than economic in nature, remained an important concept of the new program.

The primary tool of the SIP is the Community Development Corporation (CDC), a federally funded, locally controlled organization. The purpose of the CDC is to build institutions and to develop the economy of its impact area. This study is concerned generally with the economic development role of the CDC and specifically with its basic method of economic development, the establishment of business ventures. CDCs have established ventures in such business sectors as manufacturing, retailing, service, and agriculture. The Office of Economic Development (OED) policy states that profit maximization, rather than social or political objectives, should be the short-term venture goal.

Two basic approaches have been used by CDCs in venture establishment. The first rationalizes community resources into a business venture with CDC investment (of government granted funds) generally providing the initial equity. Control remains in the community because the private sector is not usually a major financing source.

The second approach, entrepreneurial search, attempts to find an entrepreneur who will invest personal funds and skills, augmented by CDC monetary investment, in a venture to be located within the CDC impact area. Majority ownership, operation, and management remain with the entrepreneur and, although community interests are protected through contractual agreement, dilution of community control over its development results.

The study compares the economic performance of selected manufacturing ventures established in rural areas under the two approaches. Two ventures established through each approach by Job Start Corporation, a Southeastern Kentucky CDC, and two ventures established through community resource rationalization by Southwest Virginia Community Development Fund, a CDC in Roanoke, are studied. The purpose is to determine if performance differences exist between the ventures established through the two approaches.

Primary sources of information included financial and other records at the CDC sites and at the OED, Washington, D.C.

The entrepreneurial ventures are found to rely substantially on private sector financing while the other firms rely much more on government financing for both capital investment and operating expenses. The latter apparently stems partly from a desire to avoid outside control which might accompany private sector financing.

A second difference is found in return on investment. The government contribution to operating expenses has a positive effect on net income. This effect is greater for community resource rationalization ventures due to larger government contributions.

Removal of this subsidy would change profit to loss for all of these firms while affecting entrepreneurial firms less.

The entrepreneurial ventures are found to create jobs and payroll at lesser cost to the government, again because of greater reliance on private sector financing.

The relative performance of the ventures suggests that the entrepreneurial firms are more consonant with the OED policy of venture profit maximization in the short-term and the legislative intent that benefits created, e.g., ventures, should be permanent and survive termination of government funding. Higher costs of community resource rationalization may be attributed to the requirements of the community control concept.

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Managerial Economics

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GENERAL EXAMINATION PASSED: October, 1974

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ERN



## CHAPTER I

### INTRODUCTION

#### General

In a collective sense, the United States is probably the wealthiest nation in history. In a relative sense, the individual citizen of the United States is among the wealthiest in the world. The signs of wealth and conspicuous consumption are present everywhere in this country. Yet, many of its cities are suffering from the physical and psychological decay of the very institutions and facilities which have made widespread affluence possible. By contrast, many rural areas have remained almost untouched by the advancing industrialization upon which much of the wealth and income are based. To some, this circumstance might be counted as a blessing, but to others it is seen as an unnecessary inequity which can be corrected through the concerted application of the nation's resources.

Many government agencies are involved in the various aspects of the national war on poverty, including the Small Business Administration, the Economic Development Administration, the Appalachian Regional Commission, and the welfare agencies. A primary governmental effort toward elimination of pockets of poverty in this country is represented by the



Economic Opportunity Act of 1964 and its amendments. The Economic Opportunity Act established the Office of Economic Opportunity (OEO)<sup>1</sup> to administer and coordinate governmental programs directed toward the elimination of poverty. This report addresses the community economic development role of the OEO and does not consider its other anti-poverty programs or the lack of success of its efforts toward overall program coordination.<sup>2</sup>

The initial plan of the OEO was to provide services-- legal, educational, and manpower training, for example--to the poor to help them join the mainstream of American life. However, through the Rural and Small Business Loan programs that were contained in the Act, the importance of economic development was recognized. The Kennedy-Javits Amendments of 1967 provided for Special Impact Funds (Title I-D) for the combined social and economic development of inner cities. These special programs were directed to the solution of the critical problems existing in particular communities or neighborhoods within urban areas having especially large

---

<sup>1</sup>The title of the office was changed by the 1975 Amendments to Community Services Administration. Because the literature and most documentation refer to the office as the OEO, and because the bureaucracy still refers to the OEO, that title is carried throughout this report.

<sup>2</sup>For a study of OEO efforts to achieve overall program coordination, see H. J. Halley, "An Analysis and Evaluation of the Office of Economic Opportunity National Anti-poverty Planning Process" (DBA dissertation, The George Washington University, 1971).





concentrations of low-income persons and within rural areas having significant "out-migration" problems. The programs were to be of sufficient size and scope to have an "appreciable impact" in arresting tendencies toward dependency, chronic unemployment, and rising community tensions.

Between 1967 and 1972, Title I-D funds provided for the genesis of the Community Development Corporation (CDC). The CDC was an outgrowth and a recognition of the fact that services provided under the original OEO concept would not break the cycle of poverty in deteriorated areas. Income transfer and social service programs were described as insufficient to solve the problems of poverty. Dignity, self-pride, and some control over and participation in assistance programs were essential. The interaction of these intangible factors is readily apparent. The unique and necessary ingredient, which only the CDCs offer, is a high degree of genuine, visible, local community involvement in both the formulation and the control of economic development programs affecting the community. The problems of rural and urban areas are interrelated in that the out-migration from rural areas frequently swells the population of nearby urban areas. It is essential that methods and programs be developed to bring economic development to the people where they live. A comprehensive program should deal with housing, recreation, new businesses, new jobs and job counseling, and



the environmental and physical community as well as the organizing of activities. Because the CDCs are locally conceived and operated, they are both more flexible and more responsive to community needs than are the more traditional types of development institutions.

In 1972, a second Kennedy-Javits amendment to the Economic Opportunity Act of 1964 combined the Title I-D Special Impact Program and the Title III-A Rural Loan Programs into a single operation: Community Economic Development, Title VII. Its stated purpose was to encourage the development of special programs by which the residents of urban and rural low-income areas could, through self-help and mobilization of the community-at-large and with appropriate federal assistance, improve the quality of their economic and social participation in community life in such a way as to contribute to the elimination of poverty and the establishment of permanent economic and social benefits.

#### The Community Development Corporation

Community Development Corporations have been established to launch and supervise commercial enterprises in most areas of business, including manufacturing, retailing, wholesaling, service trades, construction, and agriculture. While not all CDCs or ventures have survived, a number show significant economic promise.



The standard by which the performance and success of the CDC and the CDC-sponsored venture should be measured is still undefined. Testimony before the Senate subcommittee considering amendments to the Economic Opportunity Act in 1971 strongly recommended that each CDC be allowed to develop its own measurement criteria. The rationale given was that every successful social effort has defined its own performance criteria and measurements of progress. To be sure, community economic development pursues multiple objectives, encompassing economic, social, and political areas. As a result, agreement on what to measure and how to measure it is most difficult to achieve.

The Office of Economic Development (OED) policy regarding the Special Impact Program indicates that, as a general rule, CDC-established business ventures should have profit maximization as a priority short-term goal. Profit optimization remains a long-term goal. It follows, then, that attainment of economic objectives should be the first priority for the business ventures.

This does not ignore or relegate to secondary importance the attainment of social or political objectives. In accordance with the OED policy statement, institution-building is the top priority of the Special Impact Program. The institution-building role of the CDC is the primary experimental feature of the Special Impact Program. By



inference, primary responsibility for this function rests with the CDC itself, with its business ventures in a supportive but somewhat indirect role.

### Approaches to Venture Establishment

In the selection and establishment of business ventures, CDCs have generally employed two basic approaches: entrepreneurial search and community resource rationalization.

#### Entrepreneurial search

Entrepreneurial search relies on finding an entrepreneur who is willing to invest money, management, and technical skills in starting a business venture in an impact area under the aegis of a CDC. Generally, there is also CDC investment (of government granted funds) in the new business, sometimes with the CDC having the controlling financial interest.

The Institute for New Enterprise Development (INED) has developed a highly structured and organized procedure for entrepreneurial search, the results of which have been used by some CDCs. A three-weekend workshop with would-be entrepreneurs helps them develop an understanding of their own skills, motivation, and commitment. The emphasis is on development of a management team, building on individual strengths and compensating for individual weaknesses. INED also maintains an extensive library of product and process ideas from which the entrepreneur can select, or against which he can evaluate his own idea. Finally, assistance is





provided in developing a business plan, generally for an annual sales potential of over \$1 million.

The INED has received funding from OED to support its efforts in bringing CDCs together with qualified entrepreneurs. However, the general approach to entrepreneurial search and identification is of interest to this study rather than the specific INED approach or commitment.

#### Community resource rationalization

Under community resource rationalization,<sup>1</sup> the CDC surveys the resources and needs of the community and the potential of the projected market area. A business venture is then established which rationalizes these resources into a viable community asset. CDC investment generally provides the initial equity.

#### Significance of the approach selected

A combination of the two basic approaches to venture establishment is a third, obvious possibility. A fourth possibility is the acquisition of an existing business. However, in the context of this study, acquisition is not considered an addition to economic development. It may prevent further deterioration and maintain a base for further development, but it does not necessarily provide a net gain to community product or job opportunities.

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<sup>1</sup>"Community resource rationalization" is a term originated in this research to describe a particular CDC approach to venture establishment and community economic development.



The two basic approaches reflect substantive philosophical differences as well as the procedural variations noted above. The most important of these relates to the concept of community control. Early anti-poverty programs ran headlong into the desire of the community to control its own development. This desire was fueled by the lack of success of programs thrust on communities from outside, despite the wealth of good intentions with which they were accompanied. The reliance upon community resource rationalization will leave the community in control of its programs. The introduction of an entrepreneur who will generally want operational control is not consonant with complete community control. It matters not that the entrepreneur contributes to the business in a substantive way through investment of talent and capital; it still represents a dilution of community control.

If the performance of entrepreneurial ventures can be demonstrated as superior, then there are economic costs associated with strict adherence to the community control concept. This factor should then receive clear and explicit recognition in the decision-making process leading to venture establishment, not as "good" or "bad," but simply as an additional element which must be considered. Although some empirical studies of CDCs have been accomplished, they do not include a comparison of ventures established under the two approaches.



### CDCs Selected for the Study

Two rural CDCs were selected for this study. The first, the Job Start Corporation (JSC), is located in South-eastern Kentucky and has utilized both basic approaches to venture establishment. Four JSC ventures, two utilizing each approach, contribute to the basic data for the study. The second CDC, the Southwest Virginia Community Development Fund (SVCDF), is located in Roanoke, Virginia, and has utilized the community resource rationalization approach almost exclusively. Two SVCDF ventures contribute to the basic data for this study.

### Purpose of the Study and Expected Results

The purpose of this study is to examine and compare two sets of CDC ventures, each established under a different concept. It is expected that differences in performance can be identified and attributed to the approach used in establishment. The results are expected to show that the ventures established through entrepreneurial search will demonstrate less reliance on government funding, generally better profitability, and greater consonance with the OED policy of venture profit maximization. These ventures are also expected to show better promise of becoming independent, permanent community economic benefits, as desired by the legislation.



Anticipated Contribution

Although the stated OED policy requires a goal of venture profit maximization, social responsibility and institution-building are still important to the overall program. However, the latter functions are the primary responsibility of the CDC itself and should be accomplished without jeopardizing the venture's future. It follows, then, that ventures should be established under conditions which will maximize performance. An empirical study of the two approaches has not been made to determine whether performance differences exist.

The issue is particularly important at this time. Most of the entrepreneurial searches which have successfully arranged the marriage of a qualified entrepreneur and a CDC in venture establishment have been conducted by the INED. A nonprofit organization, INED has developed a highly organized and structured approach to the identification of entrepreneurial talent.

It is not, however, the INED program which is of interest to this study but the general concept represented by the INED approach which systematically identifies qualified entrepreneurs and brings them together with the CDC in a joint venture. The OED has tentatively decided to reduce its support of INED in fiscal year 1976 and eliminate it completely in 1977, leaving it to the CDC to enlist the aid of INED if it is desired.





If the entrepreneurial ventures can be shown to enjoy better performance, then the decision not to support entrepreneurial search at the OED level is not consonant with the OED policy regarding venture profit goals. For this reason, the study is of immediate interest and could have substantial influence on the Special Impact Program.

As reported in the Abt Associates Special Impact Program Evaluation (reviewed in chapter III), manufacturing ventures account for 38 percent of those established by rural CDCs, and 40 to 100 percent of the CDC capital investment. For the Job Start Corporation, investment in manufacturing activities has accounted for 57 percent of all CDC expenditure and 92 percent of all venture investment. For the Southwest Virginia Community Development Fund, investment in manufacturing activities has accounted for 56 percent of all CDC expenditures and 89 percent of all venture investment. It is obvious that the efficiency and performance of manufacturing ventures is of paramount importance to the rural CDCs in this study. The Abt Associates Evaluation indicates that manufacturing venture performance and efficiency is of similar importance to most rural CDCs.

#### Primary Research Question

The primary research question in this study is:

Are there differences in the economic performance of rural Community Development Corporation manufacturing ventures established through the entrepreneurial search approach and those established under the community resource rationalization approach?



### Subsidiary Research Questions

The subsidiary research questions to be considered are:

1. Are there differences in the generation of private source investment capital and debt financing?
2. Are there differences in profit-income performance and elapsed time from inception or startup to break-even?
3. Are there differences in the cost to the government per job created?
4. Are there differences in direct community economic benefits per dollar of government funding received?

### Scope

This study examines the performance of newly established manufacturing ventures in rural areas by rural CDCs to the extent indicated in the research questions. Benefits derived from manufacturing ventures are more likely to be net additions to the local economy than are retail, service, or other activities. New manufacturing activities are specified because few presently exist in undeveloped rural areas which might provide opportunities for acquisition. Additionally, this study orientation specifically recognizes the importance of new manufacturing activities to the rural CDC developmental strategy as indicated by the relative expenditure of rural CDC funds and efforts.<sup>1</sup> Six ventures are examined: two established through entrepreneurial search and four established through community resource rationalization.

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<sup>1</sup>See pp. 11 and 52.



## Theoretical Framework and Methodology

### Definition of Variables

#### Independent variables

The two basic approaches to business venture establishment--entrepreneurial search and community resource rationalization--are designated the independent variables. These are further defined as applying to rural areas under rural CDCs and to manufacturing ventures with labor intensive characteristics. Each of the areas selected for study has adequate access to the market, raw materials, and transportation, and there is a sufficient, though unskilled, labor pool. A basic assumption is that the areas and ventures involved in the study are similar in geography, labor, transportation, sector of activity (manufacturing), and the general availability of government or other funding. Differences in performance are due to the ability of the firm to cope with management problems, which in turn are attributable to the approach used in establishment.

#### Dependent variables

The indicators of economic performance contained in the subsidiary questions are considered the dependent variables.



## Research Model

The research model is designed to provide direction and purpose to the research as it is performed. Three elements of the community economic development program, outlined below, provide the research model framework.

### Legislation, policy, and literature

The background, history, institutional framework, and functions and purposes of the actors in the community development program are presented as found in its legislative history, administering agency policy statement, and community development literature.

### Means, resources, and methods

The CDC is the prime agent through which capital, labor, and skills are rationalized within, or introduced from without, the community in venture establishment. In business venture establishment, CDCs have generally used two substantively different approaches: entrepreneurial search and community resource rationalization. This study examines the two approaches as used in the establishment of manufacturing business ventures, focusing on differences in performance.

### Goals and objectives

While community development has a community infrastructure-building objective as well as the objective





of economic base construction, only the latter is addressed as a goal in this study. The primary vehicle in such construction is the manufacturing venture. The setting is rural.

The research model may be visualized as indicated in figure 1.

### Venture Selection

Both CDC sites selected for this study are in rural areas and have a preponderance of manufacturing ventures among their activities. Other activities include real estate development and community organizing. Ventures selected include four from the Job Start Corporation (JSC) and two from the Southwest Virginia Community Development Fund (SVCDF). Two of the JSC ventures were established through entrepreneurial search and two through community resource rationalization. Both SVCDF ventures were established through community resource rationalization.

### Entrepreneurial search ventures

The Outdoor Venture Corporation (OVC), a manufacturer of low-priced, medium-quality camping tents and accessories, was formed in 1972 through partnership between an entrepreneur and the JSC. The entrepreneurs were located through the efforts of a Knoxville, Tennessee, consulting firm and the INED. The OVC is located in Stearns, Kentucky.



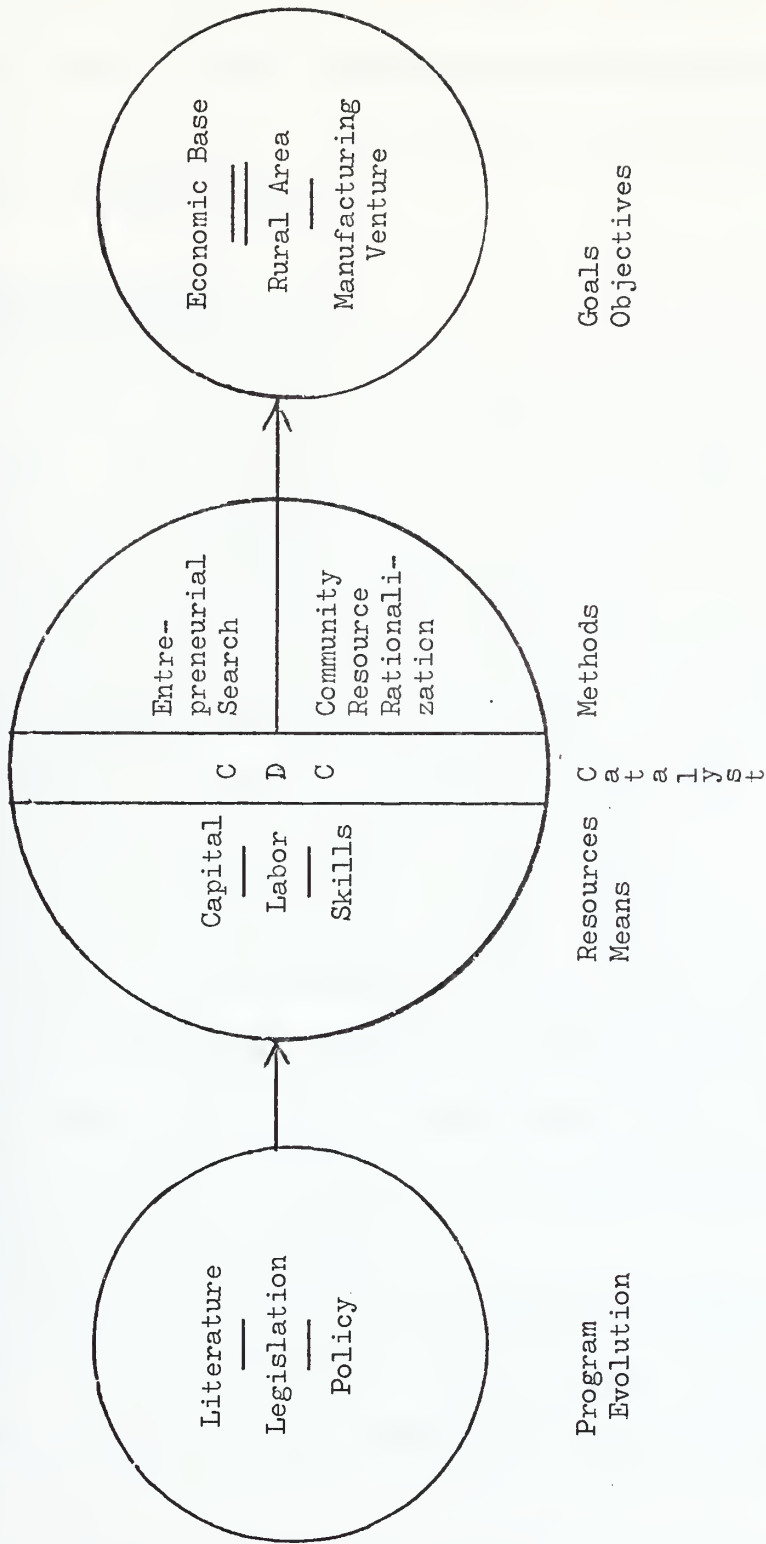


Fig. 1. The Research Model



Phoenix Products, Incorporated, is a manufacturer of fiberglass kayaks and is located in Tyner, Kentucky. It was formed in 1973 through partnership between an entrepreneur and the JSC. The principals were brought together through an INED workshop.

Community resource  
rationalization ventures

Lawson Furniture was started in 1971 by the Knox County CDC, which is affiliated with the JSC. Products include both upholstered and non-upholstered furniture. It is located in Barbourville, Kentucky.

Possom Trot Corporation (PTC) was founded in 1971 as four separate divisions of the JSC. It was located in four different sites in southeastern Kentucky. Its major products currently are stuffed toy animals. A metal division did exist briefly to make campers for mounting on truck bodies. Other products have included mini-barns.

The Gainsboro Electrical Manufacturing Company (GEMCO) began operations in September 1970, under SVCDF. Located in Roanoke, Virginia, its primary product is electrical wiring harnesses.

The Botetourt Cabinet Corporation (BCC) is a kitchen-cabinet manufacturer which began operations in September 1973, in rural Botetourt County, Virginia, under SVCDF.



Figure 2 shows the relative ages and life spans of the six firms, together with their fiscal years, the sponsoring CDC, and the approach used in their establishment.

### Data Collection

Venture financial and other data were gathered in two separate on-site visits to each CDC-venture location. Interviews, financial statements, and activity files were all important information sources. Additional data were obtained at the OED offices in Washington, D.C., including the Quarterly Monitoring Reports submitted by each CDC to OED. Interviews and correspondence files were also important data sources. Two visits to the INED, Belmont, Massachusetts, provided valuable insight into the procedures and problems of entrepreneurial search.

### Analysis

The data were arranged to facilitate comparison of the activity and performance of the six ventures at comparable venture ages. This arrangement permitted an examination and comparison of trends as they developed. The basic method of comparison was through the calculation of various ratios for each venture. This procedure resulted in an ordinal valuation of differences. It does not attempt to quantify the differences through interval or ratio valuation.<sup>1</sup>

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<sup>1</sup>For a discussion of concept quantification, see Paul D. Reynolds, A Primer in Theory Construction (Indianapolis: Bobbs-Merrill Co., 1971), pp. 57-65.





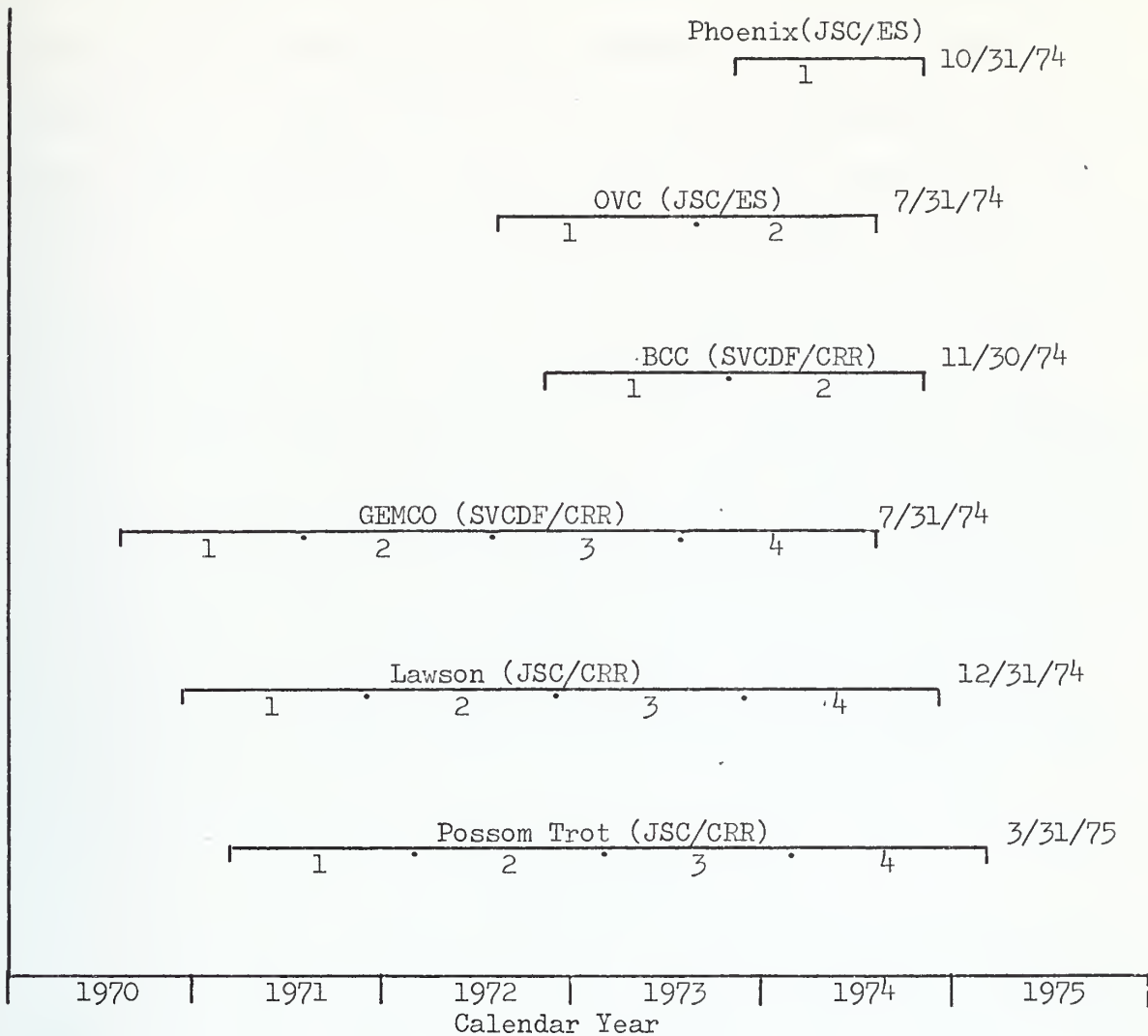


Fig. 2. Life Span, Sponsoring CDC, and Approach  
Used in Establishment of Ventures  
Included in Study

<u>CDC</u>	<u>Approach</u>
JSC - Job Start Corporation	ES - Entrepreneurial Search
SVCDF - Southwest Virginia Community Development Fund	CRR - Community Resource Rationalization



The procedure of direct comparison of ratios was selected because of the unavailability of adequate data from industries represented by the ventures. Available data are aggregated at such a level as to obscure meaningful relationships among individual firms of small size (assets or sales volume), or among firms representing secondary activity lines. Additionally, the ventures in this study are relatively young, and the available data make no provision for the relative ages of firms which contribute to the overall data aggregation. Efforts were made to obtain specific data from representative trade associations on the manufacturing lines represented by the six firms. In each instance, the efforts were rebuffed and the data described as proprietary. None of the seven associations contacted had data relating performance to the age of the firm.

### Limitations

The small number of firms in the comparison and their short life spans represents a limitation. No attempt is made, however, to establish precise differences. The results indicate that substantial performance variation is generally present in the comparisons selected for study, so that some of the concern regarding correct ordinal valuation is dissipated. Although extension of the generalization requires caution, the results do provide some insight into economic performance and trends. This should prove to be of value to



Special Impact Program administrators in the evaluation of venture establishment proposals by the CDCs.

### Organization of the Study

The organization of this study follows closely the research model presented earlier.

Chapter II defines community development and describes the community setting in which it occurs (rural or urban) as controlling its thrust and direction. Community control is discussed, both pro and con, and is related as a concept to some of the difficulties and setbacks experienced by early anti-poverty programs. The CDC is discussed as a vehicle of change but one which suffers many problems resulting from conflicting political, economic, and social objectives. The relative problems of rural and urban settings are related to investment strategies. Finally, the OED policy regarding venture profit goals is discussed.

Studies related to the present research are discussed in chapter III. The greatest difficulty in assessing poverty program success or failure is the inability to define measurement criteria. Suggested criteria are discussed as well as criticism of those used. Two important studies of the Special Impact Program have been conducted. The first of these examined the 1968 endeavors, and the second extended over the three-year period ending in 1973. The latter study is the most notable effort that has been made



to satisfy the congressionally mandated requirement for periodic evaluation. It was a massive effort, costing the government \$1.87 million, and was poorly received.

Chapters IV and V present case studies of the two CDCs selected for this study--the Job Start Corporation and the Southwest Virginia Community Development Fund--along with a brief description of the ventures included in the study. Venture establishment procedures and evolving attitudes toward venture selection, establishment, and profitability provide a specific philosophic, geographic, and demographic setting for the analysis which follows in chapter VI. The analysis compares the performance of the ventures selected.

A summary, conclusions, and recommendations for further study are presented in chapter VII.





## CHAPTER II

### A CONCEPTUAL EVOLUTION

#### Introduction

Community development conveys a number of different meanings. In the larger sense, it encompasses a whole range of activities such as political, social, and economic. Within a narrower definition, it may designate economic activity as the primary catalyst of community change, anticipating that social and political activity and change will be resultants of economic activity. Community development has been described as a process, method, program, and movement. But, whatever the individual persuasion regarding the definition, the theoretical constructs of community development require community control. However, the degree of control found in successful developmental efforts varies widely. Some practitioners would add the requirement for local ownership of development efforts, such as business ventures. The enabling legislation encourages "maximum feasible participation" of residents in developmental efforts.

In this chapter the concepts of community development and community economic development are explored so that the philosophy of venture establishment through entrepreneurial search and community resource rationalization may be placed



in perspective. If the concept of total community control is accepted and required, then the entrepreneurial search approach is not completely in consonance with the conventional wisdom of community development. Because of its importance to the present research, the concept of community control is examined and views for and against are presented. Community control seems also to be the hinge upon which initial development under the Economic Opportunity Act of 1964 swung, providing an explanation for the evolution from community efforts emphasizing political and social change to efforts emphasizing economic efforts. The Community Development Corporation (CDC) is examined as a primary tool of economic development under the amendments to the Economic Opportunity Act of 1964. Finally, the stated policy of the Office of Economic Development with regard to CDCs and CDC-established business ventures is examined.

The legislative history of the Economic Opportunity Act of 1964, as amended, is an integral part of the conceptual evolution. As such, it is not examined separately but will be introduced into the discussion as necessary.

In this chapter, the focus is narrowed from the broad concepts of community development and the concepts of community control to the primary tool of such development, the CDC. In chapters IV and V, the discussion is narrowed further, with case studies of two CDCs presented together with



the specific approach to business venture establishment used by each.

## Community Development

### Definition

One of the greatest difficulties in defining community development stems from the fact that it involves relationships among individuals and groups of individuals. Both definition and implementation are further complicated by the fact that the sense of community or neighborhood is disappearing.<sup>1</sup> If the community is defined as a local society and the institutions with which the residents identify themselves, then the problem of attaining concerted and cooperative action to develop a community is brought into perspective.<sup>2</sup> The crux of community development is that people must act collectively to improve the situation of the group and thereby the individual.<sup>3</sup>

The interdependence of economic and social development frequently results in conflict in process if not in

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<sup>1</sup>W. W. and L. J. Biddle, The Community Development Process: The Rediscovery of Local Initiative (New York: Holt, Rinehart and Winston, 1965), p. 1.

<sup>2</sup>W. J. Hayes, "The Problem of Community Intelligence," International Review of Community Development 10 (1962): 153.

<sup>3</sup>Irwin T. Sanders, "The Concept of Community Development," in Community Development as a Process, ed. Lee J. Cary (Columbia, Mo.: University of Missouri Press, 1970), p. 10.



goal. Industrial development is dependent, in part, on the formation of an administrative or bureaucratic organization to link technology, production, and marketing. The ultimate results--jobs, income, and readily available consumer goods--are acceptable goals. However, the process may be costly in a social sense. This is another factor which inhibits agreement on the definition and implementation of community development.

Sanders has defined community development in four ways: as a process, as a method, as a program, and as a movement.<sup>1</sup>

As a process. The emphasis is on a series of changes as measured against selected criteria, primarily social relations. A supporting definition is provided by the United States International Cooperation Administration:

A process of social action in which the people of a community organize themselves for planning and action; define their common and individual needs and problems; make group and individual plans with a maximum reliance upon community resources; and supplement these resources when necessary with services and materials from governmental and non-governmental agencies outside the community.<sup>2</sup>

While this definition emphasizes changes in social relationships, it appears that the measurement criteria could

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<sup>1</sup>Ibid., pp. 18-27.

<sup>2</sup>U.S., International Cooperation Administration, "Community Development Guidelines," Community Development Review 3 (December, 1956): 1.





be expanded to include certain financial or economic impact criteria such as those indicated in chapter VI.

As a method. A variation of the process definition which guides a process for a particular purpose determined as useful in the judgment of the administrator. Economic development through business establishment might be the method, while measurement of progress might be by economic criteria.

As a program. Adding content or activities to the method moves closer to community development. This concept, as defined, however, focuses more squarely on specific areas such as health, welfare, industry, or agriculture. When community control factors of the process definition are superimposed on the program definition, the result appears to provide a fairly accurate description of the CDC. The CDC offers a program formulated, planned, and implemented under community control, guided by managerial, technical (staff or consultant), and financial assistance. These are then integrated with community resources into a community economic development program.

As a movement. For some practitioners, community development involvement carries with it an emotional commitment. Progress and success are viewed with reference to a set of values and goals which may not lend themselves to measurement by any but personal standards.



In the course of the research for this study, the writer frequently heard the community development corporation referred to as the "CDC movement" by both government administrators and CDC staff members. Halley reported that the Bureau of the Budget described OEO's needs as "being for bright young men having a social rather than a physical science orientation."<sup>1</sup> Perhaps that appraisal of need is actually reflected in the attitudes of those involved in the federal community development program.

Biller's definition of development provides a summary to this portion of the discussion. He defines development as that process by which the adaptation or problem solving capacity of any unit is increased. Development is process-oriented rather than content-oriented and is thus distinguished from the concepts of modernization. Modernization refers to the symbols, products, or modes of life associated with modernity. Development emphasizes what is being learned through the problem-solving process rather than the content, which includes the symbols of modernity.<sup>2</sup>

A weakness in this definition is that progress toward development becomes difficult to measure and measurement

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<sup>1</sup>Halley, "National Anti-Poverty Planning Process," p. 49.

<sup>2</sup>Robert P. Biller, "Some Implications of Adaptation Capacity for Organizational and Political Development," in Toward a New Public Administration: The Minnowbrook Perspective, ed. Frank Marini (Scranton: Chandler Publishing Co., 1971), pp. 111-14.



criteria difficult to define. As will be shown later, agreement on measurement criteria for the Special Impact Program has not been attained. Proponents of the process definition tend to resist measurement through what Biller describes as products or symbols of modernity but offer few measurement alternatives. In short, the process definition appears to be too limited in scope to be useful in a practical sense. The definition of development as applied to the community should be extended to encompass those symbols of modernity as indicators of the ability to learn through problem-solving techniques. The strategy or methods are also of practical importance. Community development includes process, content, and method.

### The Community Setting

Community development is a method of facilitating change. Change, however, is a phenomenon which is occurring at all times in all places. Technology, industrial growth, communication, and the resulting rising expectations are symbolic of change. It is the varying rate of change and the uneven distribution of change and its effects, both "good" and "bad," which result in perpetuation or widening of developmental differences. Community development is designed to narrow these differences and to take advantage of those resultants perceived as "good" and to mitigate the effects of those resultants perceived as "bad." The relative



community development, described by Warren as "more-developed" or "less-developed,"<sup>1</sup> determines the specific developmental emphasis and strategy desired.

More-developed. A large American city and its metropolitan area provide an example of the more-developed setting. Well-developed institutional structures are found in industry, labor, health, education, product distribution systems, and government. These structures are the result of change and bring with them a host of problems which are perceived as "bad." Examples of these are deteriorating inner cities accompanied by flight to the suburbs and an eroding tax base, deteriorating public services, lack of housing, crime, underemployment, and unemployment. Community development in this instance is designed to mitigate the effects of change and to improve its distribution. Resident control of community development is particularly important in more-developed areas in order to cope with lack of ownership of community resources; for example, housing, land, and businesses. As will be shown later in this chapter, however, community control can introduce problems as well.

Less-developed. The Appalachian region of Southeastern Kentucky and the rural areas surrounding Roanoke,

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<sup>1</sup>R. L. Warren, "The Context of Community Development," in Community Development as a Process, ed. Lee J. Cary (Columbia, Mo.: University of Missouri Press, 1970), pp. 37-43.





Virginia, are typical of less-developed areas of the United States. Community development in these areas is primarily designed to bring change to, or increase the rate of change in, the area. The problem of coping with existing structural institutions and accompanying effects is present but to a lesser degree. Primary emphasis is on the development of an industry base to provide employment and income in an area where few industry-related resources exist.

In both the more- and less-developed areas, private businesses are reluctant to invest or locate. This is a void which the federal government has filled only partially through financing the Community Development Corporation.

Blaustein provides a summary for the concepts of community and community economic development while introducing the concept of community control. He characterizes community economic development as including jobs, income, and community ownership while promoting participation of the poor (in groups and as individuals) in every aspect of the capital-generating power of the economy. Among the specific goals are jobs and job improvement, career development, increased responsibility and numbers of managers from the poor, and provision of capital and technical assistance to community owned businesses, together with leverage opportunities. Blaustein characterizes the government as the prime mover in creating a favorable economic base for



all residents. The ultimate key is political power, but that must be preceded by the development of economic power.<sup>1</sup>

Bergsman seconds the need for involvement of the poor in decision and control. Jobs are important but by themselves are not enough. Control of institutions which have large stakes in relevant decisions will force the influence of these institutions to be arrayed with the community and its interests.<sup>2</sup>

### Community Control

Community control implies the power to govern existing resources and the rationalization of these resources in the community development effort. It includes control of the planning, implementation, and administration of such an effort. Necessary resources may be found either within or outside the community, but would be controlled by the community in the satisfaction of needs perceived by the community.

Community control is a concept that is important to community development and community economic development. In this section community control is discussed first from

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<sup>1</sup>Arthur I. Blaustein, "What Is Community Economic Development?" Urban Affairs Quarterly 6 (September, 1970): 57-69.

<sup>2</sup>Joel Bergsman, "Alternatives to the Non-Gilded Ghetto: Notes on Different Goals and Strategies," Public Policy 19 (Spring, 1971): 315.



the standpoint of its advocates and then from the standpoint of those who are critical of such control and consider it pivotal in the evolution toward an economic emphasis in community development. The CDC is the most direct example of tools utilized in the federally financed Community Economic Development program. It should be recognized that the degree of community control represents a central philosophical difference between the establishment of ventures through community resource rationalization or through entrepreneurial search.

Goodenough raises the basic question of how an objective can be accomplished without respecting community wants. If the objective is simply to create new conditions to which people must adjust, then community control is unnecessary. If the way the community chooses to react is important, or if community residents are to undertake the change, then what the community wants and how the plan fits those wants can mean the difference between success and failure. Where the emphasis is on what planners want, the wants of the community will limit what can be achieved. Conversely, where emphasis is on the wants of the people, then the wants of the planners may limit achievement.<sup>1</sup>

Faux states that community control is an essential ingredient to effective economic development in poverty

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<sup>1</sup>W. H. Goodenough, Cooperation in Change (New York: Russell Sage Foundation, 1963), pp. 35-37.



areas. Experience with urban renewal and anti-poverty programs such as manpower training and Model Cities has shown that program control determines the incidence of program benefits. If poor residents are to receive the benefits of poverty area economic stimulation, then poor residents must be in control.<sup>1</sup> Faux specifically attributes the problems of the central cities to an imbalance of political and economic power rather than to immutable economic forces.<sup>2</sup>

Rosenbloom lists control by residents as one of the criteria for the successful marriage of government and business in the community economic development effort.<sup>3</sup>

Perry concludes from both the civil rights and poverty experience that instruments of action must be controlled by the neighborhood alone. Neighborhood political power rests on economic power deriving from control of existing and newly created economic institutions. Improvement of social, political, and economic status depends on neighborhood action.<sup>4</sup>

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<sup>1</sup>Geoffrey Faux, "Politics and Bureaucracy in Community Controlled Economic Development," Law and Contemporary Problems 36 (Spring 1971): 277-78.

<sup>2</sup>Geoffrey Faux, "Background Paper," in CDC's New Hope for the Inner City, Report of the Twentieth Century Fund's Task Force on Community Development Corporations (New York, 1971), p. 23.

<sup>3</sup>R. S. Rosenbloom, "Business Technology and the Urban Crisis," in Social Innovation in the City, ed. R. S. Rosenbloom and Robin Marris (Cambridge, Mass.: Harvard University Press, 1969), pp. 58-60.

<sup>4</sup>Stewart E. Perry, "National Policy and the Community Development Corporation," Law and Contemporary Problems 36 (Spring, 1971): 299.





Ackerson and Sharf observe that ultimate control of a community development corporation by the community increases the probability of community identification with the corporation and subsequent support and participation in its activities.<sup>1</sup>

In a slightly different reference to community control, Vietorisz and Harrison suggest that CDC performance, for refunding purposes, be judged on self-defined success criteria rather than on criteria of a government funding agency or financial investor.<sup>2</sup> This would presumably preclude the imposition of some criteria by the bureaucracy, a procedure which could result in a form of outside control.

Hetherington's comments are representative of the opposite position. He sees the call for community ownership and control as a reaction to an economic system which has allowed poverty pockets to develop. The system which has allowed decay cannot be expected to correct the situation. His view is that there is nothing in the current performance of community controlled development that indicates that this is the way to promote economic growth and reverse the process of decay. The critical ingredient of the war on poverty is

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<sup>1</sup>Nels J. Ackerson and Lawrence H. Sharf, "Community Development Corporations: Operations and Financing," Harvard Law Review 83 (May, 1970): 1578.

<sup>2</sup>Thomas Vietorisz and Bennett Harrison, "Ghetto Development, Community Corporations and Public Policy," Review of Black Political Economy 2 (Fall, 1971): 37.



money and strict adherence to the concept of community control and ownership discourages investment from outside, precluding the rationalization of all resources necessary to economic growth.<sup>1</sup> This is in direct support of the entrepreneurial search approach to business venture establishment and questions complete reliance on community resource rationalization.

The legislative history indicates that even the Congress has retreated from full support of the concept of community control. The original Economic Opportunity Act of 1964 (EOA) tends to support community control as the intent of Congress. However, subsequent amendments to the EOA, when considered in the light of early experience with anti-poverty programs, indicate that community control was not altogether successful or, perhaps, totally desirable.

In his 1964 message on poverty to Congress, President Johnson described the EOA as providing every American community the opportunity to develop a comprehensive plan to fight its own poverty and supplying help in implementing the community plan. The plans were not to be imposed by Washington but would be prepared by each community in the light of its own problems and needs.<sup>2</sup> Title II of the EOA,

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<sup>1</sup>J. A. C. Hetherington, "Community Participation: A Critical View," Law and Contemporary Problems 36 (Winter, 1971): 33-34.

<sup>2</sup>U.S., Congress, Senate, Committee on Labor and Public Welfare, The War on Poverty: The Economic Opportunity Act of 1964, A compilation of materials relevant to S. 2642 prepared for the Select Subcommittee on Poverty, 88th Cong., 2d sess., July 23, 1964, pp. 2-3.



Urban and Rural Community Action Programs, provided that such activities were to "be developed, conducted and administered with the maximum feasible participation of residents of the areas and members of the groups [assisted]."<sup>1</sup> This provision has survived the several amendments to the Act.

The Special Impact Program Amendments to the EOA (Title I-D, 1966, superseded by Title VII, 1972) contain similar provisions. Title VII specifies that residents are to develop programs for economic and social participation in community life through self-help and mobilization of community resources. A Community Development Corporation, funded under Title VII, must have at least half of its board of directors drawn from among area residents.<sup>2</sup>

Kotler views the concept of local control and community action, as indicated in the EOA, as leading to the organization of the poor as a political force. While most political forces have a special interest which provides cohesion and motivation, the community organization of poor residents had a "sovereign base" quite unlike that of special interest groups. The base was territorially organized citizen interest and the pressures which materialized were quite different from those normally exerted by special interest groups.

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<sup>1</sup>Economic Opportunity Act of 1964, As Amended, U.S. Code, vol. 42, sec. 2781 (1972).

<sup>2</sup>Ibid., sec. 2981.





Moreover, the newly formed organizations were quite willing to use their influence to challenge the authority and power of established municipal government forms. The federal government was seen by heads of local governments as indirectly sponsoring this challenge.

In response to mayoral complaints, the Green Amendment to the EOA was passed in 1967, allowing mayors to gain control over anti-poverty efforts within their cities.<sup>1</sup> This action resulted in withdrawal of funds to some local organizations which challenged local government, and permitted the emphasis to shift away from political activity to community economic development.

According to Kotler, the new policy was designed to encourage the poor to join the existing system while removing support for the confrontation of established municipal power. Assistance would be provided to those who wanted to establish small businesses to employ the disadvantaged. While the complete demise of political activity could not be expected, the emphasis on business venture and the creation of an economic base would result in political activity more consonant with conventional rules of special interest politics.<sup>2</sup> The Special Impact Program and the Community

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<sup>1</sup>Ibid., secs. 2790, 2791, 2795, 2796 (1967), Green Amendment.

<sup>2</sup>Milton Kotler, "The Politics of Community Economic Development," Law and Contemporary Problems 36 (Winter, 1971): 3-6.





Development Corporation were viewed as having resulted from reaction to the political activity of community organizations and served as the vehicle for community economic development.

Moynihan describes the period of local organization-political establishment confrontation somewhat more directly. Neither of the simultaneous but disparate goals of program coordination and political activism were achieved, and in the process of attempting achievement, "all hell broke loose all over the place."<sup>1</sup> Not only did the organization-establishment confrontation result in domination by the established political power base, but also internal struggles among would-be organization leaders diminished any possible organizational effectiveness. Moynihan observes that the effective exercise of power is learned through apprenticeship and training. The results of thrusting power on an individual or group are painful to observe. For example, elections for Community Action Program board members from among area residents drew miniscule turnouts. Frequent quarrels among board members reflected a basic lack of understanding of the difference between policy and administration, between substance and procedure. Therefore, progress was slow and difficult. Militancy was substituted for reason. The results of such maximum feasible participation were not encouraging.<sup>2</sup>

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<sup>1</sup>Daniel P. Moynihan, Maximum Feasible Misunderstanding (New York: Free Press, 1969), p. 130.

<sup>2</sup>Ibid., pp. 137-39.



Perry provides a somewhat different perspective on the genesis of the CDC and the shift in emphasis to community economic development. The initial programs in the EOA were largely service programs: Job Corps, work-training and work-study programs, VISTA, and Head Start. The Community Action Program, which provided for the funding of community organizations, was designed to mobilize the resources of the community for the development of these service programs. The poor and other residents were to serve on boards which would direct the programs and apply pressures as deemed necessary to obtain a larger, more equitable division of available services. Perry indicates, however, that poverty is not so much a problem of individuals as it is of areas. The Special Impact Program Amendments to the EOA seem to support this position by recognizing the need to break the cycle of poverty in deteriorating areas. The problem of poverty is so complex that solutions have to contain a coordinated development program including, but not limited to, services provided for the individual. A substantial emphasis is required on the building of businesses with resulting jobs and income for residents. Financing such development in all poverty areas would require funding far in excess of that considered politically feasible. This factor, coupled with the idea of "special impact," implied a limitation on the number of areas that could be funded in order that "appreciable impact in arresting tendencies



toward dependency, chronic unemployment and community deterioration"<sup>1</sup> could be achieved in the areas selected. The Special Impact Program is a multifaceted program including housing, business, and other development projects. But the emphasis is on economic development and on the jobs and income created thereby.<sup>2</sup>

Whether the CDC and economic-based community development emerged in direct response to the inadequacies of the services approach to the problems of the poor or to political activism on the part of community organizations is significant to this study in an historical sense only. What is important is that the principle of community control and institution building remain important aspects of CDC philosophy. However, the emphasis is on economic improvement, and CDC activities go well beyond the provision of services as contained in the early legislation. The CDC is a primary tool of community economic development. The following section will provide background, objectives, and problems of the CDCs and their operations.

### The Community Development Corporation

#### Background

The CDC was formally recognized in a 1966 amendment to EOA offered by New York Senators Robert F. Kennedy and Jacob

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<sup>1</sup>U.S. Code, vol. 42, sec. 2982 (1972).

<sup>2</sup>Stewart E. Perry, "Federal Support for CDC's: Some of the History and Issues of Community Control," Review of Black Political Economy 3 (Spring, 1973): 18-20.





Javits. It was based on a model developed through the efforts of Senator Kennedy to improve the conditions in the Bedford-Stuyvesant ghetto area of New York City. Business, financial, and community leaders were brought together to funnel financial, managerial, and technical resources into the area. The amendment became known as Title I-D to the EOA and established the Special Impact Program (SIP). Its purpose was stated as follows:

. . . establishment of special programs which (1) are dedicated to the solutions of critical problems existing in particular communities or neighborhoods (defined without regard to political or other subdivisions or boundaries) within those urban areas having especially large concentrations of low-income persons, and within those rural areas having substantial out-migration to urban areas; and (2) are of sufficient size and scope to have an appreciable impact on such communities and neighborhoods in arresting tendencies toward dependency, chronic unemployment and rising community tensions.<sup>1</sup>

In its first year, the SIP was administered by the Department of Labor, which used \$18 million of a \$25 million total expenditure for an employment training program. In 1967, Congress indicated its dissatisfaction with the manpower training approach by rewriting Title I-D to emphasize its community economic development intent.

A detailed design of the program beyond the general mandate of community economic development was not specified by Congress. In fiscal year 1968, three federal agencies provided program models for implementation of the SIP:

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<sup>1</sup>U.S. Code, vol. 42, sec. 2763 (1966).





1. The Department of Labor proposed grants to outside agencies for expansion and relocation.
2. The Economic Development Administration model involved the business community much as the Bedford-Stuyvesant effort had, but ignored community involvement and control.
3. The OEO model reflected the present orientation of community involvement and control of local efforts in coordination with business and other community programs.<sup>1</sup>

In fiscal year 1969, administrative responsibility and control of the SIP was transferred completely to OEO, and its model, described above, became the operational model for community economic development. Subsequent amendments to the EOA in 1972 and 1975 reinforced the role of the CDC as a primary tool of the program. In 1972, Title I-D was replaced by a new Title VII, Community Economic Development.<sup>2</sup> Title VII was amended again in 1975. There are three operational parts in the current Title VII, with the following general provisions:

1. Part A (Special Impact Programs). Part A focuses more sharply on urban and rural-based corporations, emphasizing the role of federally supplied equity capital and encourages the cooperation of other federal agencies in assisting CDCs.<sup>3</sup>
2. Part B (Rural Programs). Part B provides grants to low-income farm families and rural cooperatives.<sup>4</sup>

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<sup>1</sup>National Center for Urban Ethnic Affairs, "Community Development Corporations: A Review of Their Experiences" (Draft) (Washington, D.C., 1973), pp. 82-86. (Mimeographed.)

<sup>2</sup>U.S. Code, vol. 42, secs. 2981-85 (1972).

<sup>3</sup>*Ibid.*, sec. 2982 (1975).

<sup>4</sup>*Ibid.*, sec. 2983.



3. Part C (Training and Technical Assistance). Part C makes available technical assistance and long-term loans to CDCs and cooperatives directly or in cooperation with banks or other organizations.<sup>1</sup>

The CDC is defined by Part A as a non-profit, locally initiated organization. The area it serves may or may not follow established political or other subdivisions, and may be rural or urban, but will have concentrations of low-income persons. The program in each area will be of sufficient size to have an appreciable impact in arresting tendencies toward dependency, chronic unemployment, and community deterioration and will show promise of survival upon termination of federal assistance. Finally, the CDC will be assisted in starting businesses to provide employment and ownership for area residents through local planning and implementation. However, the government (OEO) retains the authority to approve ventures established with government funds. The ultimate goal is the establishment of permanent economic and social benefits in the area.<sup>2</sup>

#### Goals and Objectives

Individuals who come together to form an organization are the product of their own background, experience, and perception. Perhaps the most vexing problem faced by such a group of individuals is the setting of goals and objectives

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<sup>1</sup>Ibid., sec. 2984.

<sup>2</sup>Ibid., secs. 2981, 2981a, 2982a.



for the organization. Such is certainly the case when individuals face the problem of forming a CDC for the purpose of fostering community economic development. Complicating the situation further is the fact that the CDC represents a multifaceted approach to the problems of the community. Disagreement over priorities is inevitable.

Goals sought by CDCs have been generally categorized as follows:

1. Local community control over the means and instruments of development
2. Comprehensive economic development, which can also provide for no. 3
3. Social goals, by tempering economic considerations with social considerations.<sup>1</sup>

Central to each of these goals are economic considerations. Acceptance of that point leads to an examination of each goal relative to economic considerations and the question of compatibility with social and political goals.

Political goals center around community control of economic resources and social services, coupled with broad-based community involvement in the decision process. As has been demonstrated, however, community control can result in challenge to established governmental forms even before an economic base has been established. Additionally, one of the stated objectives of the SIP is to establish

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<sup>1</sup>National Center for Urban Ethnic Affairs, "Community Development Corporations," p. 15.



permanent economic and social benefits in the area which show promise of survival upon termination of federal funding. This implies the need to attract outside sources of funding in addition to federal assistance. Few poverty areas would be able to "go it alone" without either, or both, federal and private sources of funding and capital. It is quite common for outside investors to place restrictions on the use of funds, managerial qualifications, and types of investments made. Acceptance of such restrictions dilutes community control; rejection limits available resources.<sup>1</sup>

It appears, then, that the extreme of absolute community control may be an unnecessary limiting factor and incompatible with maximum community development, an economic goal. The experience of one CDC which accepted a protected minority position at the expense of some control will be outlined in chapter IV.

The conflict between economic and social goals may be demonstrated in a similar manner. If social services are to be provided by the CDC, profits generated by established business ventures provide one source of financing. If profits are not generated, termination of federal funding to the CDC may signal the end of the CDC and funds available for social goal achievement. Sturdivant views the primary objective of CDCs as the establishment of self-sufficient,

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<sup>1</sup>Frederick D. Sturdivant, "Community Development Corporations: The Problem of Mixed Objectives," Law and Contemporary Problems 36 (Winter, 1971): 44-47.





viable enterprises capable of attracting needed financial technical and managerial resources. Broader social goals must be considered longer range in nature.<sup>1</sup> Faux observes that most CDC leaders view self-sufficiency as the generation of sufficient income to make the CDC independent of political strings attached to gifts and grants. Faux goes on to say that realization of economic and social goals rests on the ability of the CDCs to survive as a business or to produce businesses that survive.<sup>2</sup>

Perry states that the central and immediate goal of community economic development is to create power and influence by providing economic muscle for a representative organization (the CDC) and thereby the community residents.<sup>3</sup> This would seem to indicate that economic achievement is central to, and must accompany if not precede, social achievement.

It is quite apparent that the selection of goals by a CDC and its community is not an easy task, that conflict is inevitable. It also seems apparent that compromise is necessary if any or all goals are to be achieved, and that concentration on any single sub-set of goals may preclude achievement of another sub-set. The resolution of such

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<sup>1</sup>Ibid., pp. 47-50.

<sup>2</sup>Faux, "Background Paper," pp. 53, 55.

<sup>3</sup>Perry, "Federal Support for the CDC's," p. 21.



conflicts and the achievement of a proper mix is a major problem faced by the CDC.

Figure 3 illustrates the problem of competition and conflict which accompanies the goal-setting process faced by the community and its development process.

### CDC Investment Strategies

Earlier in this chapter, the terms "more-developed" and "less-developed" were introduced to describe the relative community development existing in urban and rural areas respectively. The urban setting was described as requiring a program to mitigate the "bad" effects of change and to gain a better distribution of "good" effects resulting therefrom. Similarly, the rural setting was described as requiring a program to take advantage of the "good" effects of change or to bring "good" to an area which change has passed by. This section provides a brief outline of federal funding levels provided to rural and urban CDCs and outlines the respective investment strategies used to achieve development goals in each setting. Rural needs and strategies are treated in somewhat greater depth because both CDCs which are examined in this study serve rural impact areas.

#### Federal funding

Federal funding levels are shown in table 1.

The largest amount granted to a single CDC went to the Bedford-Stuyvesant Restoration Corporation, Brooklyn,



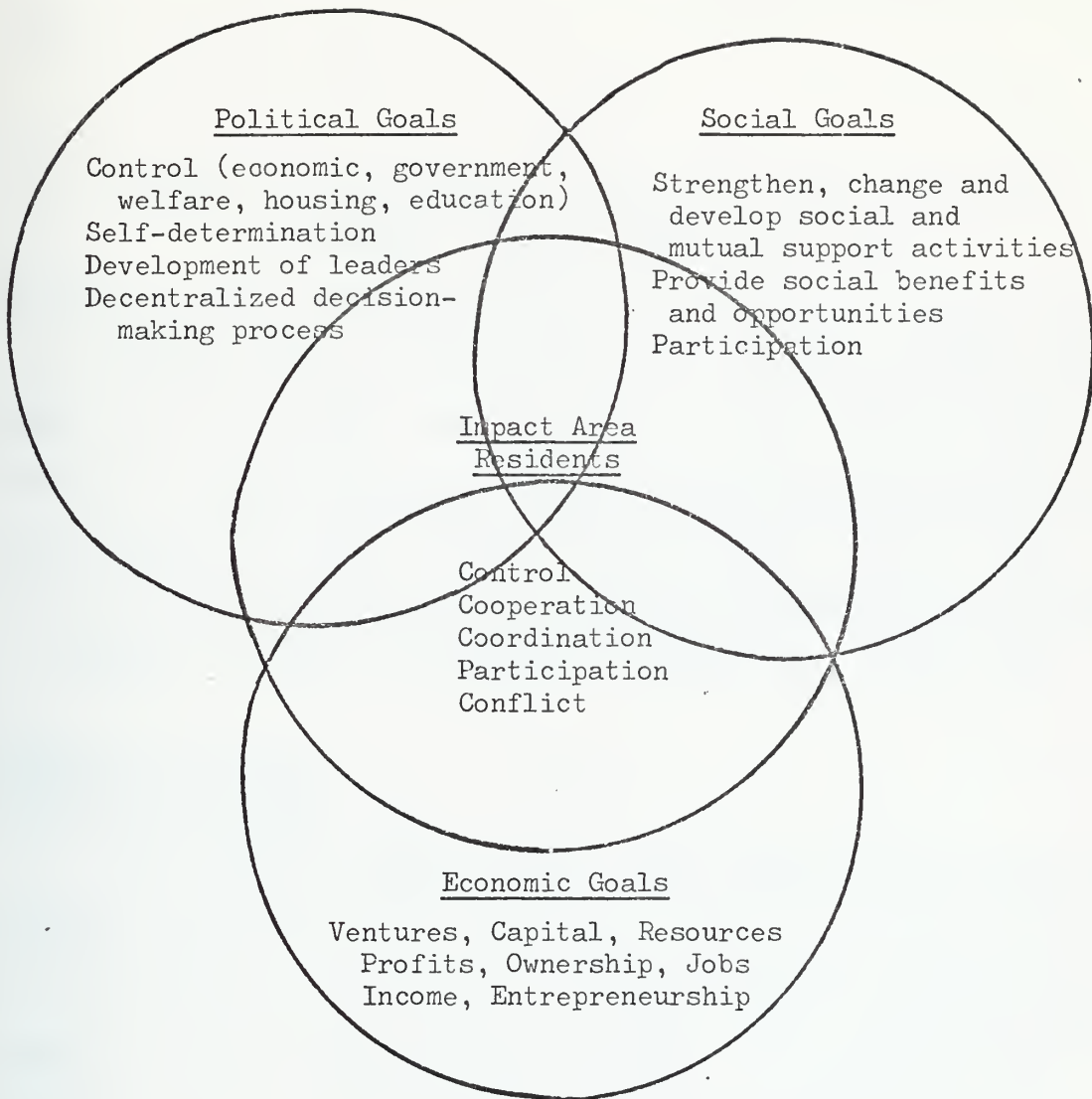


Fig. 3. Conflicting Goals in the Community Development Process



New York. If this amount, \$33,584,000, is subtracted from the total funding, the remainder, \$131,852,000, has been distributed 56 percent to urban CDCs and 44 percent to rural.

TABLE 1

SUMMARY OF OEO FUNDING TO ALL CDCs UNDER TITLE VII  
OF THE ECONOMIC OPPORTUNITY ACT OF 1964,  
AS AMENDED, FISCAL YEARS 1968-1974

	1968	1969	1970	1971	1972	1973	1974	Total
Urban	1,640	8,399	19,955	23,801	14,702	21,300	17,960	107,757
Rural	- -	2,524	10,039	7,470	9,803	13,893	13,950	57,679
Total	1,640	10,923	29,994	31,271	24,505	35,193	31,910	165,436

SOURCE: Office of Economic Opportunity, July, 1974.

Elements of urban  
need and strategy

The typical urban impact area experiences social and economic pressures which produce a steady deterioration of the environment. Development efforts must actively counter these forces and byproducts of change. According to the Abt Associates (AAI) evaluation of the Special Impact Program, urban residents perceive their short-term needs as primarily housing and better paying jobs to replace low paying jobs which have no future.<sup>1</sup>

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<sup>1</sup>Abt Associates, Inc., An Evaluation of the Special Impact Program: Final Report, 4 vols (Cambridge, Mass., December, 1973), 2: 186.





Business investments are diversified, with the heaviest emphasis in retail, service, and construction property development. The latter investments do not produce jobs but provide opportunities to leverage available funds accompanied by the possibility of better housing. Manufacturing has received less emphasis than other types of ventures and substantially less emphasis than in rural areas. Efforts to keep resident spending in the area and localize the economic multiplier effect are evident in the development of retail and service businesses. The urban CDC must constantly contend with the negative forces present in the community.<sup>1</sup>

Table 2 presents the sector distribution of ventures established by sixteen rural and sixteen urban CDCs.

TABLE 2  
DISTRIBUTION OF CDC VENTURES BY SECTOR

	Sector						Total
	Mfg.	Retail	Svc.	Whole-sale	Agri-cult.	Constr. Prop.Dev.	
Urban	22	47	54	4	0	50	177
Rural	31	6	15	0	29	24	105
Total	53	53	69	4	29	74	282

SOURCE: Abt Associates, Inc., An Evaluation of the Special Impact Program: Final Report, 4 vols (Cambridge, Mass., December, 1973), 4: 124.

<sup>1</sup>Ibid., pp. 187-89.



Elements of rural  
need and strategy

Rural impact areas served by CDCs generally have few resources that are needed to support industrialization. As a consequence, most are agricultural and not very prosperous. The work force has few appropriate skills. New businesses generally must rely on the development of "foreign" markets in which to sell their products. However, as a rule, raw materials instead of finished products are exported. Rural underdeveloped area residents perceive their highest priority need as jobs, which generally do not exist in the area. Housing is also accorded a high priority.<sup>1</sup>

The emphasis which rural CDCs place on manufacturing type activities is apparent in table 2 (page 51). Establishment of manufacturing activity does result in a net gain in jobs and income to the community, if not to the national product, because of the export nature of the markets served. It also reflects the need to serve those "foreign" markets instead of trying to establish local markets in areas with limited personal resources. The AAI study shows that thirteen rural CDCs placed from 40 to 100 percent of their investment funds into manufacturing activities. Twelve invested more than 60 percent and seven more than 80 percent.<sup>2</sup> The fact that such a large proportion of CDC capital is invested in manufacturing

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<sup>1</sup>Ibid., pp. 182-85.

<sup>2</sup>Abt Associates, An Evaluation: Final Report, 4:6.



activities places a heavy emphasis on developing a well-rounded business capability on the CDC staff. Expertise in feasibility studies, marketing and market development, cost-control, and analysis, as well as other areas is required. Similar capabilities must be established within the venture, if it is to become independent of the CDC staff, to allow the CDC staff to apply itself to other CDC venture development activities.

Another problem in manufacturing venture establishment is the relatively large capital investment required. Although most rural manufacturing ventures are labor intensive, substantial capital investment is required. Frequently, the ability to carry inventory due to the seasonal aspects of the market requires substantial lines of credit or other debt. Toys, tents, and kayaks manufactured by Job Start Corporation ventures in Southeastern Kentucky provide examples of this situation (see chapter IV). The ability to attract outside investment and financing is important to the survival and growth of manufacturing ventures, but CDCs in rural areas have experienced relatively more difficulty in obtaining such financing from local lending institutions than have urban CDCs.<sup>1</sup> The ability and experience of the CDC staff and venture management are crucial in arranging outside funding.

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<sup>1</sup>Brady J. Deaton, "CDC's: A Development Alternative for Rural America," Growth and Change 6 (January, 1975): 32.



Office of Economic Development Policy  
on the Special Impact Program

The Office of Economic Development (OED) is charged with the administration of the Special Impact Program (SIP). It is a part of the Office of Economic Opportunity, which was established by the EOA. The OED has developed a policy statement for the SIP in conjunction with the representatives of the CDCs, the National Congress for Economic Development and the Center for Community Economic Development.<sup>1</sup> The coordinated development of the policy statement is evidence of OED's desire to foster maximum CDC participation in the policy-making process.

This section examines the policy statement, summarizing pertinent portions as they arise in the discussion. The entire statement is presented in appendix A.

Program priorities

Appreciable impact. The legislative objective of the SIP is to achieve appreciable impact in arresting tendencies toward dependency, chronic unemployment, and community deterioration. The policy statement realistically defines appreciable impact as occurring not when poverty is eliminated, but rather when the current downward economic, social, and institutional trends have been reversed.

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<sup>1</sup>Office of Economic Development, Letter from Associate Director, OED, to Executive Director, National Congress for Community Economic Development, October 22, 1974.





Suggested factors which will indicate appreciable impact are listed as net inflow vice outflow of jobs and income, attraction of private capital to the area through establishment of profitable ventures and property development, reduction in unemployment and an increase in skilled managerial-production workers in the area.<sup>1</sup>

The next chapter examines suggested measurement criteria, such as those indicated above, and also discusses the disagreements surrounding the use and meaning of such criteria.

Self-sufficiency. Another legislative goal of the SIP is the creation of permanent social and economic benefits which will survive the termination of federal funding. The considerations regarding self-sufficiency are different for the CDC than for the CDC-established business venture.

The CDC business venture is expected to attain self-sufficiency over the short term in order to provide for its own financing and growth. In this regard, the short-term goal of the venture is expected to be profit maximization. Profit optimization may allow for contribution to CDC social goals but must remain a long-term goal. This is obviously in response to the legislative intent to provide permanent

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<sup>1</sup>Unless otherwise noted, the remainder of this section is based on U.S., Office of Economic Development, "Policy Statement on Special Impact Program" (Washington, D.C., 1974); and interviews with Louis Ramirez, Associate Director, OED, and Barbara Cleveland, Program Analyst, OED, in Washington, D.C., March 27, 1975.



benefits in the event of funding termination. If still dependent on the CDC at that point, the venture would most likely fail.

Data presented in chapter VI clearly indicate that some ventures examined for this study have not reached the break-even point after two to four years of operation. The undesirability of continuing the operation of an unprofitable venture was emphasized by the Associate Director of OED. The CDC is encouraged to make the decision to terminate such a venture or to consciously make the decision to operate it on a subsidized basis for other than business reasons. A decision to continue could be justified if the cost of continuing is less than the amount of transfer payments which would be required to provide for basic income needs of the workers. Continuation of such a situation, however, can bleed off CDC assets and lead to the development of the attitude that efficiency is not required because of the government subsidy. Attraction of long-term financing to supplant government financing would be difficult with a record of negative earnings. In the event of government termination of CDC funding, the venture would fail anyway, and few permanent benefits would remain.

CDC self-sufficiency is a somewhat different matter. The policy statement indicates that even self-sufficient ventures cannot be expected to generate profits great enough



to cover CDC costs in the short term. The goal of CDC self-sufficiency may not even be an appropriate long-range goal. Faux agrees, indicating a decline in the number of CDC leaders who regard self-sufficiency "as a realistic goal for the foreseeable future."<sup>1</sup> The policy statement is vague on how such self-sufficiency would be attained, and the Associate Director concludes that the avenues to achievement of such a goal are probably outside the capability of present SIP funding levels.

Employment. The greatest need perceived by rural area residents has been reported earlier as jobs. This has led to emphasis on job-creating manufacturing ventures, at least in rural areas. However, the policy statement indicates that short-term job creation normally should not be pursued as an objective at the expense of venture profits. This is quite in consonance with decisions to close unprofitable venture facilities in Southeastern Kentucky, as reported in chapter IV.

Institution-building. This is characterized as the top priority effort of the SIP. Creation of new organizations (e.g., community organizations, CDCs, ventures) and changing the behavior and attitudes of existing organizations (e.g., government, banks, and investors) are the primary

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<sup>1</sup>Faux, "Background Paper," p. 53.



objectives. The concept is to create new resources and make them available to the community economic development effort. Although challenges to established power centers are implied, the basic strategy seems to be to work within the economic and political structure, gaining a share while adding to the structure rather than demanding a share of what exists. This contrasts with the direction taken by some community development efforts outlined earlier in this chapter.

Human development. Through the establishment of ventures and provision of jobs and job opportunities, job skills in both production and management areas will be developed. The primary beneficiaries are the low-income residents of the impact area.

#### Other factors

Prior to leaving the area of OED policy, two additional factors brought out in the interviews should be mentioned.

1. OED has encouraged the CDCs to develop business expertise and orientation within their operations. The same orientation seems to be evolving at OED in response to the emphasis on CDC-venture self-sufficiency and profitability.

2. The Associate Director indicated that present plans are to fully fund INED's operations with the CDCs in fiscal year 1975. However, fiscal year plans for 1976 and 1977





will require the CDCs to fund half and then all, respectively, of support received from INED in entrepreneurial search over the next two years. The objective seems to be to require the CDCs that utilize INED assistance to pay for what they use rather than accommodate the entire cost through a separate grant to INED. It is another move toward leaving policy and program decisions at the local level, but it is also indicative of skepticism regarding the efficacy and value of the INED program, and perhaps the whole concept of entrepreneurial search and ventures.

### Summary

This chapter has explored the evolution of the concepts of community development and community economic development. Initial militancy by advocates of community control was offered as one possible reason for the increased emphasis on the economic objectives of community development. The CDC is in the position of implementing developmental activity while protecting community interests and control. By OED policy, CDC-established ventures are expected to maximize profits in the short term. If this policy is to be effectuated, then the CDC must pursue every possible means of assisting its ventures in becoming profitable. In the extreme, this would relegate community control to a relatively minor role as business interests were pursued to the exclusion of all else. However, it is apparent from the literature that



developmental programs are unsuccessful unless control is in the hands of the intended beneficiaries.

It is apparent that both extremes incur some type of added costs, and neither will achieve the objectives of all parties. This would seem to imply that the entrepreneur is a suitable partner of the community in joint ventures designed to achieve community development, particularly where the community lacks any of the resources necessary to venture success, or if it can be demonstrated that entrepreneurial ventures enjoy superior performance.

A general philosophical background has been provided for the development of the two CDC case studies presented in chapters IV and V.

Before considering the specific CDCs, however, a review of Special Impact Program study efforts is presented in chapter III. The problems and criticisms of measurement and measurement criteria are also examined.



## CHAPTER III

### RELATED STUDIES

#### Introduction

The process of evaluating the impact of the SIP and the CDC on their areas is complex. The assumption that such impact can be assessed implies that goals and objectives can be defined and isolated so that measurement criteria can be established. Further, it implies that adequate and appropriate data can be generated and collected so that evaluation of progress or success can be made in terms of agreed-upon measurement criteria. This is a formidable task.

The difficulty of such an assessment in the specific instance of the SIP can be attributed basically to two factors. The first is the vague language of the legislation. Such key concepts as maximum feasible participation, appreciable impact, chronic unemployment, and community deterioration are not defined. In fact, the SIP itself is defined in only the most general terms. This leads directly to a second, related factor, which was discussed at some length in the previous chapter: the problem of mixed and competing objectives which are not always compatible.



This chapter addresses studies of the SIP which are related to the present research. In order to set the stage for the discussion, suggested criteria for impact measurement are examined first. Criteria established in one study are presented together with strong criticism of those criteria by a policy research organization. Such disagreement is commonplace when the accomplishments and the goals of the SIP are discussed.

The assumption is made that evaluation of the SIP is a two-tier problem that evaluates the efficiency of CDC business ventures and incorporates those results into the CDC evaluation. If the CDC is not achieving the desired impact on its multiple goals, then one way to change direction is to revise venture strategy and emphasis. Without venture efficiency information, an overall evaluation does not seem possible. An evaluation of the efficiency and performance of six CDC ventures is presented in chapter VI.

### Measurement Criteria

The CDC utilizes a multifaceted approach to the problems of its impact area, as pointed out in the previous chapter. Among other things, the CDC attempts to generate community involvement in its program and community control over the resources and results of its efforts. The CDC will attempt to establish economic enterprises to produce jobs and income, community organizations to assist in determining





the direction of political efforts made possible by economic achievement and to change the behavior of existing institutions (banks, governments, etc.) from passive non-participation to active support and involvement in community efforts. These goals and objectives are interrelated and intermingled. They are at once political, social, and economic. But whatever the goals and objectives, it is essential that some criteria of measurement be established. Without them, it will become increasingly difficult to gain support in the scramble for limited national resources.

#### Brower's Criteria

Brower describes community development as a "complex web" which involves economic, social, human, and political development. He recognizes the importance of the economic factors but eschews them as too narrow to describe or evaluate the entire process. Although offered over four years ago, his effort is still quoted as one of the few of its kind. Brower offers criteria for measuring success in terms of three goals, indicated below.

Economic. The economic criteria suggested are fairly standard and can be represented either in absolute terms or relative to SIP grant levels.

1. Funds raised from other governmental sources, non-governmental grants, or private sources
2. Number of jobs created on the CDC staff and in CDC business ventures--effect on local unemployment, underemployment, and family income



3. Attraction of outside businesses to locate in the impact area--a related factor is provision of a market by a private firm for impact area products
4. Housing units produced or rehabilitated
5. Number of businesses started or assisted<sup>1</sup>

Each criterion is quantifiable and can be expressed as a ratio in terms of government investment to provide an indication of unit cost to the government. The efficiency of the venture concerned in the use of its resources is also indicated in economic terms; leveraging of SIP funds, provision of jobs, increases in income, and provision of housing seem to be of greatest importance. However, when computed at the CDC level, such measures provide little direct information regarding the performance of individual business ventures. They provide no insight into what constitutes a proper mix of ventures by sector for a particular CDC. Finally, they do not seem to accommodate fully the policy of OED which gives the primary short-term objective of ventures as profit maximization. Even the economic indicators are mixed with social-political objectives.

Social, organizational, and human development. Building of community organizations through which residents can participate and develop experience and skills is fundamental. Criteria suggested by Brower are again at the CDC level,

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<sup>1</sup>Michael J. Brower, The Criteria for Measuring the Success of a Community Development Corporation in the Ghetto (Cambridge, Mass.: Center for Community Economic Development, 1970), pp. 6-7.



except for reference to employment and income. Quantification of these criteria is considered by Brower to be difficult if not virtually impossible.

1. How viable is the CDC? What is the decision process and involvement?
2. How broad is the CDC organizational base with regard to the community? Who elects the Board of Directors? Are community organizations growing in size? Does the community know about the CDC and its accomplishments?
3. Is community attitude turning to hope rather than apathy?
4. What are the trends in attained educational level, mortality rate, crime and arrest rate, alcohol and drug abuse, and participation in adult education programs?
5. Does the CDC employ community residents? In what capacity? What is the wage level of employees relative to comparable outside positions?<sup>1</sup>

Political development. Although the CDC is a non-profit organization and prohibited from political activity under terms of that status as set forth in the Internal Revenue Code, section 501(c)(3), the ultimate result of its activities is probably the creation of political influence. Political activities can be entered into by affiliated membership organizations, unless they, too, are incorporated in a nonprofit status. Suggested political development criteria include the following:

1. Voting and voter registration trends, and the degree to which elected representatives reflect the views of area residents

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<sup>1</sup>Ibid., pp. 7-13.



2. Involvement of the community in political organizations, number of residents standing as candidates for election, and issues of community interest being addressed by legislative or government bodies
3. Share of funds or services being funneled into the area by local governments
4. Degree of attention devoted to the community by established power centers and figures<sup>1</sup>

Some of these criteria can be quantified and have been, in fact, in the previously mentioned AAI studies. The quality and effects of these factors, however, are still elusive resultants.

Brower also discusses the question of how long a CDC should be allowed to operate before being considered "successful." He concludes that CDCs might become self-sufficient in five to fifteen years, and some may never achieve that status. Most CDCs remain dependent on sizable outside grants for ten years, and some even longer. A measureable, heavy impact on community economic, political, and social and human development might occur in a decade, or a few years sooner in the most successful case.<sup>2</sup>

#### The AAI Report Criteria

In a report issued in March, 1972, Abt Associates, Incorporated (AAI), described "impact" as occurring in terms of achievement of CDC-expressed goals. These included specific measures (e.g., employment, wage income, profits,

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<sup>1</sup>Ibid., pp. 13-15.

<sup>2</sup>Ibid., pp. 15-24.





reduced out-migration, and capital development), as well as less specific terms (e.g., human capital development, consumer services, reduced dependency, changed institutional behavior, and community control). Measurement was attempted through venture performance data, interviews, and questionnaires administered to area residents.<sup>1</sup> In a later study, these measures were repeated and related to change over time, implying that "appreciable impact" has a time dimension. This recognizes the questions related to the length of time that should be allowed for a CDC to produce impact and when measurements should be made.<sup>2</sup>

The lack of agreement on measurement criteria is illustrated by the comments of the CDC Committee to Review the Evaluation of the Special Impact Program. The committee operated through the National Congress of Community Economic Development, meeting with AAI researchers as the study progressed. Both the Phase I Report and the Interim Report drew similar comments. Only the comments on the Interim Report are presented below.

The committee charged that AAI failed to reflect accurately the nature of the SIP and the legislative mandate

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<sup>1</sup>Abt Associates, Inc., An Evaluation of the Special Impact Program: Phase I Report, 4 vols. (Cambridge, Mass., 1972), 1:6-7.

<sup>2</sup>Abt Associates, Inc., An Evaluation of the Special Impact Program: Interim Report, 4 vols. (Cambridge, Mass., 1973), 2:9-9.



which launched it. This was described as apparent in "measures made, conclusions drawn and language of the report." Exception was also taken to the methodology employed. It appears, however, that the basic objection related to the measures and inferences drawn from them.

AAI broke the program into components, of which jobs created was a major component and measure. The committee agreed that the program could be broken into components. However, it objected to the notion that optimizing the components optimized the program, stating that the comprehensive, integrated program could not be measured with reference to its elemental parts. The time element was introduced by the committee in two related ways. First, results do not occur in a linear relationship with investment. Rather, resource utilization becomes more efficient with experience, implying that employment, ROI, and other measures of efficiency improve over time. Secondly, the elapsed time from inception to measurement must be a factor in drawing conclusions. The measures used are criticized as being inadequate and misleading to an overall evaluation. Significantly, the committee offered no alternative measures.<sup>1</sup>

These examples are given to illustrate the disagreement over measurement criteria. The issue raises a fundamental question: Can the SIP survive for an indefinite

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<sup>1</sup>Ibid., 1:24-30.



period without demonstrable results, if not "appreciable impact" by some criteria? Or will the struggle for scarce national resources result in abandonment of the program and allocation of resources to another purpose?

It appears that there should be recognition of the fact that component optimization may be sacrificed to achieve some other objective. But that fact should not preclude measurement of component performance. When decisions are made not to optimize, the decision maker should be clearly aware of the costs of that decision and the benefits which might accrue to some other component, or the overall program, through such suboptimization.

The following sections address four major reports relating to the SIP. The first, by the Westinghouse Learning Corporation (WLC), is an evaluation of the 1968 program. The other three, all by AAI, cover generally the 1970-1973 time period. Collectively, they represent the most important evaluations of the SIP that have been made.

#### Westinghouse Learning Corporation Study

The Westinghouse Learning Corporation Study evaluated the 1968 performance of the SIP under Title I-D of the EOA, as amended.<sup>1</sup> Five urban and two rural programs were examined.

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<sup>1</sup>This section summarizes and is based upon Westinghouse Learning Corporation, An Evaluation of Fiscal Year 1968 Special Impact Programs, vol. 1: Summary, and vol. 2: Kentucky and North Carolina (Washington, D.C., 1970).



The two rural programs were comparable efforts administered by the Farmers Home Administration of the Department of Agriculture in rural areas of North Carolina and Kentucky. Although the Kentucky program was also in the southeastern part of the state, it did not encompass any of the counties subsequently included in the Job Start Corporation program (see chapter IV).

#### Evaluation Model Elements

The evaluation model was composed of the three elements indicated below.

##### Economic

The economic analysis distinguished between macro and micro levels. At the micro level, changes in individual employment experience and income were investigated. At the macro level, the multiplier effect was analyzed through an examination of changes in levels of exogenous spending in the economy and displacements caused by the extent to which new jobs, sales, and profits reduced jobs, sales, and profits available in the same economy. Data were developed from local CDC and federal administration files and through three sets of surveys.

##### Qualitative

The qualitative element was designed to provide a basic comparability between SIP areas and other facets of





the overall evaluation. It served as the basis for case studies of the projects studied. Data were developed on-site through interviews, observations, census data, media content, and other associated federal and local agencies.

### Quantitative

Quantitative data were developed through a series of interviews with area residents, neighborhood leaders, and employees of the CDC. Problems were encountered in sampling procedure, non-response, and finally, cancellation by OEO of the final interview attempts because of the excessive time lapse between surveys. As a result, the data were used only to gain some insight into the differences in characteristics of CDC program participants and non-participants.

## Findings

### General

Because the primary concern of the present research is rural development programs, and because the remainder of the WLC report is devoted to findings regarding specific CDCs, only the results pertaining to the two rural CDCs are summarized herein.

The funding levels granted the Kentucky and the North Carolina programs were about the same (\$1.4 million and \$1.3 million respectively). Results achieved, however, were significantly different. In North Carolina, some small



industry was in existence, and potential industrial sites had been identified by existing industrial development commissions. A sense of competition, but not conflict, was present among the four counties involved in the program. Growth and opportunity of the entire area was the common concern. Eleven outside industries were attracted to the area, employing about 1,200 residents. Almost all of the jobs were low-paying "cut and sew" jobs, probably not of the type envisioned by SIP legislation because they offered no advancement opportunities. But they were jobs nevertheless, and they did satisfy the priority need of poor rural area residents. Non-economic accomplishments included providing running water for 300 black families, a bookmobile to provide library services to rural residents, a low-cost housing project, and plans for a health care facility. By both economic and non-economic standards, the project was a success.

The Kentucky program stands in stark contrast with the North Carolina experience. The local CDC and its board of directors represented an eight-county area, but SIP grants were allocated for only four of these counties. Visits by a national politician to one of the counties carried with them the implication that that county would be favored. The implied suggestion caused intensification of the rivalry already existing among the counties. Administration of the



Kentucky program by the Farmers Home Administration was much less flexible than the North Carolina program. Also, the eight-county area (to which the grant was finally extended in an effort to lessen conflict) did not form a "natural union." Few industrial sites were available or even identified. In the end, only \$150,000 of the original grant was expended, and results produced were insignificant.

The results of the two experiences exemplify all of the problems which can beset such an effort. Local conflict without coordination and cooperation, poor administration, and poorly defined goals and objectives were all factors contributing to the failure of the Kentucky program.

#### Lessons learned

Several lessons were learned from the two programs.

1. Impact areas chose among the broad legislative goals, and these influenced strategies adopted.
2. Target areas are hard to identify and maintain in the pursuit of common goals. The study questioned the ability to isolate a relatively small neighborhood, as suggested by the legislation.
3. Results take many forms, making it difficult to measure success on an absolute scale. A better process may measure progress toward self-set goals. Certainly, job provision in North Carolina was successful. However, evaluation may be the measurement of expectation.



4. The definition of community participation and control is an elusive one. It takes a different form in each area. It may involve businessmen, self-selected individuals, militants, or even non-residents. Community control and involvement were positive factors in North Carolina but strongly negative in Kentucky.

5. The business of business is profits, not partnership. Initial efforts to persuade industry to locate in high-risk urban or rural poverty areas were largely unsuccessful.

6. Coordination of all government bureaucratic efforts in an area is most difficult. Each agency tends to look at its own program in isolation of others.

7. Institutional structure change is difficult to achieve. Banks, for example, shy away from poverty areas for the same reasons that businesses do.

8. Jobs created in such a program may not lead to development of skills or careers.

9. Small businesses have a high failure rate. SIP funds must provide sufficient long-term investment to ensure success opportunities.

### Summary

The WLC study illustrates many of the problems experienced in subsequent CDC programs. Among these are the difficulty in persuading businesses and institutions to participate, the creation of job opportunities and not





just jobs, the failure of small business, and the difficulty in establishing criteria for, and measurement of, success. The evaluation of the study must be tempered with the realization that the SIP had been in existence less than two years at the time of the data collection.

### AAI Study: Phase I

The first phase of the Abt Associates, Incorporated (AAI) program involved the operations of seventeen CDCs during the period from July 1970 through June 1971.<sup>1</sup> A survey of community residents and employees was conducted from June through August, 1971, and results were incorporated into the study. CDC and CDC-venture data collection was accomplished on-site as well as at the OEO's Washington, D.C., offices, both for this study and the subsequent AAI studies.

Analytical procedures included financial performance projections, cost-benefit analysis (where applicable), cross-tabulation of survey results to determine benefits distribution, and regression analysis related to CDC organization structures and practices, economic and institutional environmental variables, and OEO administrative procedures. While procedures were described in some detail in actual analysis presentation, no overall model was constructed wherein all analytical techniques and interrelationships

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<sup>1</sup>This section summarizes and is based upon Abt Associates, Inc., An Evaluation: Phase I Report.



were developed. This comment pertains to all three AAI reports. It is a factor which renders overall evaluation difficult.

### Barriers to "Appreciable Impact"

The AAI Phase I Report states that "appreciable impact" had not occurred because of the three constraints indicated below.

1. CDC strategy implies broad goals, including community support and influencing of institutions, which preclude the reduction of unemployment and dependency in the short term
2. The business venture, a primary development vehicle, cannot stress employment and dependency on an unsubsidized basis without incurring financial loss
3. SIP funding levels were inadequate

### CDC Strategies and Performance

Evaluation of CDC performance was made in the light of the constraints listed above and focuses on a perceived three-function strategy of the CDC as indicated below.

#### Performance as a development fund

Examination of the strategy of performance as a development fund showed venture startups as a primary activity, with skill and management training taking place and sometimes resulting in short-term losses to the ventures. Half of the ventures were projected to be at



the break-even point at the end of four years in spite of inexperienced management, market competition, and unbalanced capital structures. Outside financing and preferential market treatment were characteristics of better performance.

#### Performance as a demonstration effort

Performance as a demonstration effort refers largely to the ability of the CDCs to attract outside financing from private or other government sources. Not surprisingly, the size of the SIP grant and the relative experience of the CDC staff appeared to be governing factors.

#### CDCs as institutions for community control

Measures of community control were tentatively identified as follows:

1. Accountability to residents measured by the composition of the boards of directors and the attitudes of residents as indicated in surveys
2. Transfer of resources to residents (e.g., stock sale to individuals and transfer of venture stock to community organizations)
3. Resident support of CDC as determined by questionnaire

Substantial variation in results was observed.

Generally, boards of directors were dominated by the professional staff members. Transfer of stock and ownership has been slow to materialize, but all CDCs were well regarded by residents.



General recommendations included more autonomy for the CDCs, particularly regarding venture investment decisions, and an emphasis on attainment of break-even by ventures.

### Summary

Many of the criticisms aimed at the AAI Interim Report by the review committee mentioned earlier<sup>1</sup> had been originally leveled at the Phase I Report. In particular, the use of jobs as a measurement of impact and the stress on venture profits were criticized. The tendency to look at only the short-term economic goals and an apparent disagreement in the interpretation of the legislative mandate were also mentioned. Finally, the committee found unacceptable the tendency "to overlook what they cannot or choose not to measure." As in the criticism of the Interim Report, the committee offered no alternative measurement criteria.

Of more concern to this researcher is the lack of an overall model and conceptual framework within which the study could be developed. The reliance on projections of break-even points and profitability formulated largely by the ventures themselves produced questionable conclusions which later proved to be overly optimistic. Finally, the definition of variables was not precise. The committee which criticized the report, however, was even less precise.

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<sup>1</sup>See above, pp. 69-70.





AAI Study: Interim Report

The second phase of the AAI study included an evaluation of thirty CDC grantees.<sup>1</sup> The purposes of this phase were stated as revising the descriptive model that was presented in the Phase I Report, analyzing program efficiency and determining whether it had achieved "appreciable impact." An examination of program and venture efficiency is withheld until the final report is discussed.<sup>2</sup>

Program Model

The program model was described as evolving from the legislation and the interpretation of that legislation by the CDCs. The model does not attempt to interpret the legislation except through the actions of the CDC. It separates benefits to the individual from those accruing to the community as a whole.

Program benefits to the individual

Primary benefits to the individual are employment and income. Human development and reduced out-migration are presumed to be benefits of employment and resulting on-the-job training. The CDC strategy regarding choice of sector in which to develop activity seems to be influenced by the

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<sup>1</sup>This section summarizes and is based upon Abt Associates, Inc., An Evaluation: Interim Report.

<sup>2</sup>See below, pp. 90-92.



setting: rural or urban. The sector selection in turn produces differences in employment impact, job quality, and wage impact, all accompanied by tradeoffs among goals. Rural areas emphasize manufacturing to produce large numbers of jobs, generally with limited advancement possibilities. The cumulative wage impact is substantial. Urban concentration on property development does not create jobs but shows promise of high quality impact through leveraging and housing development. Retail activities in urban areas provide needed community facilities but create few, low-paying jobs. Tradeoffs are also made between individual benefits and venture viability and profitability, usually in favor of the venture.

#### Program benefits to communities

The program model emphasizes a parallel and reinforcing approach to community benefits. The emphasis here is on institutions and their relation to community development. Included as institutions are the CDC and its ventures, with community ownership as an institutional goal. Provision of consumer services (e.g., retail food stores) is important to poverty areas and represents a form of institutional influence.

It was found that the efforts to provide community benefits suffer from lack of clear statements of purpose. The benefits of the CDC, beyond those of its ventures, are difficult to assess.



### Appreciable Impact

In the interim study, AAI analysts took the first step toward defining "appreciable impact." A single resident benefit, employment, was selected for the initial examination. The definition selected was the elimination of the gap between unemployment rates in the impact area and its surrounding SMSA or county over a period of ten years. The report concluded that the impact had approximated one-third to one-half of the required annual rate. The main reasons for non-achievement are that funding levels at any one site have been inadequate, that CDC efficiency in resource utilization must be improved, and that private sector support must increase.

### Summary

The AAI Interim Report showed definite progress toward the goal of SIP evaluation. For the first time, the definition of "appreciable impact" was attempted, albeit in a limited way. As will be shown, the final report modified that definition but did little to extend it to non-economic benefits. The descriptive program model separated and defined both individual and community benefits. These benefits should be addressed as the dependent variables in the definition and measurement of program goals. Unfortunately, quantification of the community, non-economic goals still seems a remote possibility.



The definition of "appreciable impact" as it relates to employment seems less than satisfactory. Changes in the surrounding areas affect the achievement of the goal, both negatively and positively, and are completely outside the control of the program. It would seem desirable to establish a definition for which achievement can be measured independently of what happens outside the impact area.

A tentative conclusion is offered by the report that manager participation and/or partnership (entrepreneurship is an example) might create a higher probability of profitability than complete CDC ownership and control. Private sector support could, to some extent, be provided through the involvement of entrepreneurs in venture establishment and activity. This point was not pursued in the final report.

#### AAI Study: Final Report

The final report of the AAI study extended the coverage to thirty-three grantees and the data collection and analysis over a three-year period.<sup>1</sup> Data were collected and analyzed on CDC administrative expenses and the benefits created, the distribution of benefits over time, and resident perception and attitudes toward CDC activities. The inability to define a rigorous analytical framework with specific

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<sup>1</sup>This section summarizes and is based upon Abt Associates, Inc., An Evaluation: Final Report.





methodology was acknowledged and attributed to the nature of the problems addressed by the SIP. This apparently refers to the inapplicability of such statistical and analytical techniques as hypothesis testing and correlation and regression analysis as central methods of the research. Much of the analysis is described as relying on "careful interpretation of observed characteristics and relationships." However, an overall framework was not constructed.

The final report interprets the elusive concept, "appreciable impact," as significant improvement in one or more conditions in the community over a period of time. Generally, it is conceived in this report as having occurred when the gap between impact area conditions and surrounding SMSA or county conditions has been cut in half. The report recognizes the relative ease of establishing quantitative economic achievement criteria but dismisses as almost impossible similar quantification of social goal achievement because "there is no valid concept of a viable urban or rural community." The measurement of social and political goal achievement is made across the three years of the evaluation using results from the AAI studies only.

Major areas of investigation relevant to the present research are reported below.



### Appreciable Impact

To assess the degree of "appreciable impact" achievement and potential for future achievement by the CDCs, measurement of both economic and social goal achievement were presented in the AAI final report. In the matter of social achievement, however, data and conclusions presented originate in differences noted between two sets of AAI data generated in 1971 and 1973. No comparable data were found for the nation or the areas concerned. Because only fifteen sites were examined in 1971, the final comparison is limited to these sites. Concomitant data limitations are fully recognized in the report.

#### Economic achievement

Measurements of economic achievement included employment, skill development, and non-managerial employee income.

1. At the present growth rate in CDC and CDC-venture employment and under present development strategies, the elapsed time to achieve appreciable impact on employment was estimated at seventeen years for urban sites and eight years for rural. Part of this time difference is due to the emphasis on the job creation strategy of the rural areas. However, only 40 percent of the jobs created in rural areas have gone to previously unemployed persons. In urban areas, only 15 percent have gone to the previously unemployed.



It appears that rural areas may achieve appreciable impact while urban areas will have more difficulty.

2. Achievement of appreciable impact in skill improvement within fifteen years would require a growth rate of 35 percent in urban areas and 32 percent in rural. Present growth rates were reported as negative in the urban areas and 127 percent in rural areas. The latter figure, however, apparently is influenced by the effects of starting with an almost completely unskilled labor base where any numerical improvement results in large percentage increases. It is not expected to continue.

3. The emphasis on improving income has been much greater in urban areas than in rural. Current CDC non-managerial wages are reported at 150 percent of urban median family incomes and 120 percent of rural in their respective impact areas. However, percentage increases over previous incomes are only 12 percent in urban areas and 3 percent in rural. This suggests two related conclusions. The first is that little impact has been made on family incomes, particularly in rural areas. The second is that rural areas have compromised wages in favor of the number of jobs created. But the study also indicates that sizable gaps still exist between median family incomes in the impact areas and the surrounding area.



### Political-social achievement

A 1971 community survey provided a benchmark against which 1973 changes were measured. Perceptions of community residents regarding conditions and change in two general areas are summarized in tables 3 and 4.

Table 3 indicates that, except for the factor regarding private investment, the rural areas reflected almost no change in perceptions. However, most perceptions are favorable. The urban results reflect significant negative change in perceptions. This may be indicative of unfulfilled expectations and the inability of the CDC to counter the negative forces existent in the urban areas.

TABLE 3

APPRECIABLE IMPACT: COMMUNITY RESIDENT PERCEPTIONS  
OF ECONOMIC CONDITIONS AND CHANGE  
(Percentage of Respondents)

	Urban		Rural	
	1971	1973	1971	1973
More job opportunities now	59.0	48.3	70.0	72.2
Less unemployment now	47.5	38.5	60.0	64.5
CDC has gotten jobs	85.2	85.1	90.0	88.8
Most of private sector is trying to help	27.5	18.6	40.0	42.0
More private sector interest now	54.0	29.5	70.0	70.4
CDC has increased private sector interest	74.0	53.1	82.0	70.1

SOURCE: Abt Associates, Inc., An Evaluation of the Special Impact Program: Final Report, 4 vols. (Cambridge, Mass., 1973), 2:109.





A similar picture emerges from the examination of political-social climate and change as shown in table 4. Rural areas show little change, but a large percentage of residents assess the picture in a positive manner. Urban area residents see the situation deteriorating. The CDC role is not completely clear in either case. Because it is probably more visible in a rural setting which is almost devoid of development activities, the CDC may be viewed by residents as more responsible for change. The inference is that the CDC is a positive factor. In urban areas, so many other factors come into play that evaluation of the CDC as a change agent is more complex, and the cause-effect relationship may be less well defined.

TABLE 4

APPRECIABLE IMPACT: COMMUNITY RESIDENT PERCEPTIONS  
OF SOCIAL AND POLITICAL CLIMATE AND CHANGE  
(Percentage of Respondents)

	Urban		Rural	
	1971	1973	1971	1973
Government trying to help more now	65.1	46.3	83.0	78.3
Political process helps more now	64.5	75.6	75.1	80.0
More community progress now	56.4	50.4	83.9	84.1
Community leaders have more influence now	60.9	55.8	79.2	83.0
Residents can do more to change community now	87.5	77.9	95.8	92.0

SOURCE: Abt Associates, Inc., An Evaluation of the Special Impact Program: Final Report, 4 vols. (Cambridge, Mass., 1973), 2:111.



## Venture Efficiency

To assess venture efficiency, measures used were leverage achieved on CDC investment of SIP funds, cost per job created, and venture profitability. Study conclusions are presented by CDC setting, by sector of activity (e.g., manufacturing, retail), and for the program overall. Little information is present on which to evaluate the impact of outside investment or entrepreneurial participation. Results are shown in tables 5 and 6, for urban and rural sites respectively.

The comparison paints a mixed picture. When agriculture and construction-property development are eliminated from the rural figures, they are generally quite comparable to the urban figures. A large difference in profits realized from construction-property development projects is apparent. Agriculture, peculiar to the rural area sites, requires high investment and creates few jobs. Of particular interest to the present research is the relative emphasis placed on manufacturing by rural areas and the relatively favorable performance of this type of activity. It is apparent, however, that profits are not being generated consistently in any of the sectors. Another section of the study reports that only 27 percent (16 of 58) of the ventures are profitable.



TABLE 5

SUMMARY OF CDC VENTURE EFFICIENCY: MEAN PERFORMANCE BY SECTOR  
(URBAN SITES)

	SIP Costs per Maximum Jobs	Total Cost per Maximum Jobs	Leverage on SIP Investment	Profits as Percentage of Sales
Mean with agriculture and property develop- ment ventures	\$6,789 (73)	\$13,188 (73)	1.57 (77)	- 9.7% (50)
Mean without agricul- ture and property development ventures	6,883 (72)	13,210 (72)	1.68 (72)	- 9.7% (NA)
Manufacturing	6,344 (15)	17,055 (15)	2.27 (14)	-24.0% (11)
Retail	6,602 (26)	10,078 (26)	1.66 (25)	- 2.1% (14)
Wholesale	8,269 ( 2)	8,269 ( 2)	0.0 ( 2)	-13.3% ( 1)
Service	8,771 (22)	16,389 (22)	1.39 (23)	-10.6% (19)
Agriculture	. . . . .	. . . . .	. . . . .	. . . . .
Construction- property development	2,408 ( 8)	8,471 ( 8)	1.21 (13)	4.5% ( 5)

Note: Figures in parentheses indicate the number of ventures in the calculation.

SOURCE: Abt Associates, Inc., An Evaluation of the Special Impact Program: Final Report, 4 vols. (Cambridge, Mass.), 2:135.



TABLE 6

SUMMARY OF CDC VENTURE EFFICIENCY: MEAN PERFORMANCE BY SECTOR  
(RURAL SITES)

	SIP Costs per Maximum Jobs	Total Cost per Maximum Jobs	Leverage on SIP Investment	Profits as Percentage of Sales
Mean with agriculture and property develop- ment ventures	\$8,865 (42)	\$18,418 (40)	1.97 (46)	-160.6% (30)
Mean without agricul- ture and property development ventures	5,983 (37)	13,578 (35)	1.64 (40)	- 16.0% (NA)
Manufacturing	4,853 (22)	9,809 (21)	1.79 (25)	- 14.5% (17)
Retail	5,628 ( 5)	9,369 ( 4)	.30 ( 4)	- 17.9% ( 5)
Wholesale	. . . . .	. . . . .	. . . . .	. . . . .
Service	9,057 ( 8)	17,655 ( 8)	1.86 (10)	- 19.4% ( 4)
Agriculture	49,736 ( 3)	84,143 ( 3)	.64 ( 4)	-1461.6% ( 3)
Construction- property development	3,943 ( 4)	24,895 ( 4)	7.75 ( 3)	- 18.9% ( 1)

Note: Figures in parentheses indicate the number of ventures in the calculation.

SOURCE: Abt Associates, Inc.; An Evaluation of the Special Impact Program: Final Report, 4 vols. (Cambridge, Mass.), 2:134.





### Final Comment

The AAI study represents a three-year, \$1.87 million effort. It has produced three reports, each in four volumes. Massive quantities of data have been collected, analyzed, and presented. Yet the reports have not been well received. Committee reviews summarized earlier<sup>1</sup> are indicative of this fact. Another indication is that the Ford Foundation commissioned the Urban Institute in 1973 to develop criteria and methodology for an evaluation of the economic, social, and political goals of the CDC and the SIP. As of April, 1975, nothing has been published. Perhaps the establishment of such criteria should have been the starting place for any evaluation effort. Economic benefits can be measured, but their importance to the overall evaluation is a point of heated disagreement. Non-economic benefits are more difficult to measure, even if criteria could be agreed upon. The result is a most difficult problem that is not near resolution.

### Other Studies

A number of studies related to the SIP have been accomplished, and these will be described briefly.

In a 1970 study, Rivera found that the participation of local residents and their ethnic composition jointly predict the performance of CDCs in producing benefits more consistently than either factor alone. The inference is

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<sup>1</sup>See above, pp. 67-68.



that participants from outside either the area or the ethnic composition of the area may limit CDC performance. A second finding was that the degree of area participant concentration on the board of directors and CDC staff will determine the level of comparative CDC performance more consistently than venture or bureaucratic management.<sup>1</sup>

Block approached the question of economic impact on the community through the development of an input-output model. With OEO funding of a Comprehensive Health Center in a rural area as a basis, the consumption patterns of both residents and vendors resulting from the project were established. An area input-output matrix was modified to create a matrix for the community.<sup>2</sup> Block is now under contract to OEO to produce a generalized input-output model for use at the local CDC level as an aid to decision making.

A similar project is underway at the University of California at Berkeley. By the use of input-output techniques, separate models have been developed for each of three counties within which CDCs are located. Identification and estimation of economic inputs and development

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<sup>1</sup>Jose A. Rivera, "Community Control of Economic Development Planning: A Study of the Recipient Beneficiaries as the Actors of Change" (Ph.D. dissertation, Brandeis University, 1972).

<sup>2</sup>A. Harvey Block, A Model for Analyzing Economic Impact of Comprehensive Health Service Projects (Washington, D.C.: Bokonon Systems, Inc., 1974).



of guidelines for long-range CDC economic development strategy are the goals.<sup>1</sup>

### Summary

The evaluation criteria and analysis methods applicable to the SIP are not well-developed and accepted. Disagreement over program goals still exists. Some observers question the advisability of trying to evaluate a program which is still developing. Quantification methods are questioned.

Despite the existing disagreements, it appears that a fairly clear policy has been issued by OED, a policy that has been in evolution for two years. That policy quite clearly indicates that venture profitability maximization is an essential short-term goal. Where conditions require optimization rather than maximization, OED approval is required. Measurement of other than the efficiency goals of the venture is not as easily accomplished. Combining efficiency and non-efficiency measures into an overall evaluation is most difficult.

Despite the disagreements, an overall evaluation seems important to the direction of the program, if not its future. It seems important to quantify what can be quantified while trying to develop an overall conceptual framework

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<sup>1</sup>L. T. Wallace, "An Input-Output Analysis of the Outreach of Three Community Development Corporations: Delta Foundation, Job Start Corporation and the East Los Angeles Community Union" (Draft), Earl Warren Legal Institute, University of California, Berkeley, April 15, 1975. (Mimeographed.)



and methodology within which the overall evaluation can be accomplished.

The present research is directed toward the evaluation of the performance of certain ventures established under two separate philosophical approaches. While the concepts of community control are very much a factor in the philosophical processes which govern CDC activity, they are not direct considerations in the evaluation which follows. Only the resultants of the process are compared: the performance of business ventures established under the community resource rationalization approach and the performance of those established under the entrepreneurial search approach.

The next two chapters present case studies of two CDCs, one of which has utilized the community resource rationalization approach exclusively. The other has used both approaches. The chapters present a specific geographical and philosophical setting for the evaluation in chapter VI.





## CHAPTER IV

### JOB START CORPORATION

#### Introduction

In this chapter, an abbreviated case study of the Job Start Corporation is presented. Demographic and geographic information provide a physical setting for the CDC efforts. A discussion of venture establishment procedures, community organizing efforts, the evolving attitudes regarding venture selection, establishment, and profitability provide a philosophical setting for community economic development efforts. Individual venture development narratives emphasize those ventures which form a basis for the study. By way of a summary to the chapters, CDC capital investment and growth of CDC activities are discussed.

#### Background

The impact area served by the Job Start Corporation includes a ten-county area of Southeastern Kentucky (fig. 4). Collectively and individually, the counties are among the poorest in the nation. The population is overwhelmingly white, with mean incomes of a significant portion of area families below the poverty level.<sup>1</sup> Unemployment is generally

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<sup>1</sup>Families are classified as being above or below the poverty level, using the poverty index adopted by the Federal





Fig. 4. Kentucky, with Ten-County Job Start Corporation  
Impact Area Indicated



higher and the educational level attained by area adults lower than those of the rest of Kentucky and the United States (see table 7). Even these figures probably understate the real situation. Many of those not on unemployment rolls are underemployed in marginal agricultural activities or poorly paid service occupations. The area is isolated from most industrialization and industrialized areas. Transportation and other lines of communication are generally underdeveloped but have not been a handicap to JSC manufacturing ventures. Few of the human and other resources applicable and necessary to present-day industry have been developed and are present. Appalachia, of which Southeastern Kentucky is a part, offers few of the attributes necessary to industrial development and has even fewer attributes which cannot be provided in greater quality and quantity by other rural areas of the country.

No conflict situation similar to that described in the WLC study of an early Kentucky SIP effort has arisen among the ten counties forming the JSC impact area. This is despite the seeming lack of inherent cohesion or commonality of interest among the participants. There are indications that there is some rivalry and jealousy among the counties over location of JSC ventures. However, there

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Interagency Committee in 1969. A range of poverty thresholds is provided and takes into account family size, sex and age of family head, number of children, and farm-nonfarm residence. Poverty cutoff for farm families is \$3,184 (four members), 85 percent of the nonfarm level.



TABLE 7

DEMOGRAPHIC DATA FOR TEN-COUNTY IMPACT AREA  
SERVED BY JOB START CORPORATION

	Clinton	McCreary	Wayne	Bell	Clay	Harlan	Jackson	Knox	Whitley	Rockcastle	Kentucky	United States
1970												
Population <sup>1</sup>	8,174	12,548	14,268	31,087	18,481	37,370	10,005	23,689	24,145	12,305	..	..
White <sup>1</sup>	8,138	12,350	13,889	29,998	18,126	34,981	9,989	23,287	23,966	12,296	..	..
Negro <sup>1</sup>	24	192	365	1,057	321	2,293	6	372	134	3	..	..
1960												
Population <sup>1</sup>	8,886	12,463	14,700	35,336	20,748	51,107	10,677	25,258	25,815	12,334	..	..
Median education level attained by adults 25 and over <sup>2</sup>	8.3	7.8	8.1	8.4	8.0	8.4	7.8	8.4	8.7	8.2	9.9	12.1
Percent unemployment <sup>1</sup>	7.5%	10.0%	8.6%	8.9%	9.6%	7.1%	13.0%	5.6%	6.0%	11.5%	4.6%	4.4%
Percent families below poverty level <sup>2</sup>	36.2%	13.2%	50.1%	39.2%	57.3%	40.0%	49.9%	48.4%	39.7%	35.9%	19.3%	10.7%

SOURCES: 1. U.S., Department of Commerce, Bureau of Census, County and City Data Book, 1972: A Statistical Abstract Supplement, Table 2, Counties.

2. Idem, Census of Population, 1970: General Social and Economic Characteristics, Final Report PC(1)-C19, Kentucky, Table 124, Income and Poverty Statistics in 1969 for Counties: 1970.





has not been a replay of the 1968 experience where such feeling precluded any progress. Constant effort is expended by JSC staff members, particularly the executive director, to prevent such conditions from developing.

Philosophy of Business  
Venture Establishment

Initial efforts, designed to reverse the cycle of poverty in Southeastern Kentucky under the Economic Opportunity Act of 1964, consisted largely of Community Action Programs. These were established in various communities under separate Community Action Agency (CAA) directors to foster a multitude of perceived community needs (e.g., training, educational, health care). One of the main activities of the CAAs was described as manpower development and was performed under a Department of Labor contract. Little in the way of useful, permanent skills was developed with much of the money being expended in such activities as picking up trash and weeds from alongside community roadways.<sup>1</sup> It was not until 1967 that attention was focused on the problem of job creation. Jobs require businesses, and availability of capital must precede business establishment. The beginning of economic development under the Community Action Program consisted of a simple woodworking

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<sup>1</sup>Barry Stein, The Biggest Little Conglomerate in the World: Community Economic Development in Kentucky (Cambridge, Mass.: Center for Community Economic Development, 1973), p. 4.



shop set up with inadequate equipment in an unused building in Knox County.

The CAA directors ultimately recognized that both they and the poor they were attempting to help were frustrated by the lack of community-level guidance directed at community economic development. The continuing, coordinated program and assistance necessary to convert the products and the services of the poor into steady jobs, investment, and new businesses simply were not available. Both investment and working capital were absent, as were the other ingredients essential to business startup and success, such as managerial and technical expertise. As the CAA directors saw it, these factors had to be mobilized in the rural area of Southeastern Kentucky where the people were before community needs could be addressed effectively.<sup>1</sup>

The cooperation and coordination of the CAA directors in the subsequent successful application for Special Impact Funds devoted to community economic development can be appreciated only through consideration of the geographical remoteness and narrow local interests of each of the communities involved. The proposed organization, Job Start Corporation, was designed to serve a

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<sup>1</sup>Job Start Corporation, "Continuation of a Small Business Proposal for Southeastern Kentucky," a refunding proposal submitted to the Office of Economic Opportunity for the continuation of Special Impact Funds, February 17, 1970, pp. 6-7.



ten-county area of rural Appalachian Southeastern Kentucky where communication between communities and mobility of the population are limited. County government is strong, with each county having a decidedly local base and perspective. Simply to attain a general consensus, commonality of purpose and direction is not an insignificant accomplishment under such conditions. However, the desirability of a single representative and advocate in attempts to obtain funding for community economic development served to overshadow and submerge the demands of natural and political diversity which obtained between geographical sub-areas.

On October 15, 1968, the initial six-month OEO grant for community economic development brought the Job Start Corporation (JSC) to life. The JSC listed its initial goals as the assembly of evidence concerning markets and producers, the cultivation of sources of low- or zero-interest capital, the determination of proposed business locations within the ten-county impact area, and the development of a plan to establish a separate small business development corporation.<sup>1</sup>

The program was designed to cope with the root causes of poverty in the impact area. These included the social and political isolation of the poor, the lack of "grass-roots" community leadership coupled with the lack of responsiveness of public officials, and the nearly total lack of job

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<sup>1</sup>Ibid., p. 8.





opportunities. Provision of job opportunities was recognized as a prerequisite for successful action against other poverty causes and became the first priority of JSC efforts. The second priority was the creation of poor-resident ownership opportunities. This was seen as a means of developing social and economic independence and community leadership. Previous anti-poverty efforts in much of Appalachia (e.g., the manpower training program alluded to earlier) were described as demonstrating that economic development is essential to the creation of social change.<sup>1</sup>

#### Product Selection

In its earliest years, JSC subscribed wholly to the concept of business venture startup through community resource rationalization. This is evidenced by its selection of products for market penetration:

Markets pursued by Job Start are determined by either (1) the product or service already provided by a given community (within the impact area), or (2) the product or service in which a given community expresses an interest or expertise.<sup>2</sup>

The JSC role was described as providing assistance in marketing and matching community residents (according to interest, capability, productivity) with products having market potential.<sup>3</sup> The risk associated with this approach

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<sup>1</sup>Job Start Corporation, "Work Program," London, Kentucky, 1971, p. 3.

<sup>2</sup>Ibid., p. 7.

<sup>3</sup>Ibid., p. 25.





was recognized in that the creative ideas of the community would provide the basic source of ideas for economic development projects. Markets would then be created to serve these products.<sup>1</sup> Such ideas would result in production and marketing on a test basis for a six-month period, with initial investment limited to \$5,000.<sup>2</sup>

The venture establishment process was conceived as having four separate stages, described as being particularly useful where sophisticated feasibility studies were impractical or impossible and where lead time for small-scale manufacturing was short.<sup>3</sup>

Stage I. Establish facility, ideas, and design for products for which production capability and markets appear to exist.

Stage II. Test production and test marketing of various products of a particular type (e.g., wood) are accomplished on a limited basis. Train a nucleus of management and production personnel.

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<sup>1</sup>Ibid., p. 29.

<sup>2</sup>Ibid., pp. 24-26.

<sup>3</sup>Ibid., p. 3; and Office of Economic Opportunity, "Highlight Memorandum," a summary of JSC accomplishments, community development goals, and future venture and social strategy for the funding period 1970-1971, Washington, D.C., 1971.



Stage III. Expansion of production and marketing effort follows the development of a viable product or product line. At this point, the working and investment capital requirements increase substantially.

Stage IV. On attainment of self-sufficiency, the business would be "spun off" to operate under a local county Community Development Corporation, assuming that one had been formed.

### Summary

The subscription and adherence to the concepts of community involvement, control, and ownership of economic development efforts are clearly illustrated. The early efforts of the JSC were formed around this concept and include the development of two of the four JSC business ventures used as a basis for this study, Possum Trot and Lawson Furniture.

### Affiliated Community Development Corporations

An important concept indicated in initial planning involved the establishment of affiliated CDCs within the impact area for which the JSC would perform a business planning function and serve as a conduit for Special Impact Funds. The original concept was to develop within each CDC the ability eventually to perform a business venture



ownership role.<sup>1</sup> Basic to the fulfillment of this role were such learning experiences as recruitment and screening of job applicants and participation in basic investment and development decisions. Realization of the final stage of business development, as described earlier, rested on successful establishment of representative CDCs organized in areas of business venture startup. In addition, the local affiliated CDC was envisioned as providing the membership of the JSC board of directors, thereby placing ultimate control and direction of community economic development at the community or grass-roots level.

In 1971, JSC reported the existence of local CDCs in various stages of organization and operation, representing seven of the ten counties in the impact area, with yet another county having initiated organization efforts.<sup>2</sup> In the latest JSC report of such activity, however, only two affiliated CDCs are listed as providing representation to the JSC board of directors. It was stated that the JSC plans no further action to organize any such groups prior to 1977.<sup>3</sup>

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<sup>1</sup>Job Start Corporation, "CDC Status Report," London Kentucky, May 12, 1971, p. 4.

<sup>2</sup>Ibid., pp. 1-4.

<sup>3</sup>Job Start Corporation, "Application for Continuation of Grant Awarded Under Title VII, Economic Opportunity Act of 1964, as Amended," London Kentucky, December 30, 1974, p. 25.



It is now felt that support of several CDCs would be a drain on the JSC resources and efforts and would not assist in the attainment of current objectives.<sup>1</sup>

The fact that only partial success was achieved in the CDC organization and membership efforts was attributed to two basic assumptions which did not prove valid:

1. Community residents would join the local CDCs despite the lack of an established constituency (i.e., people receiving benefits from the JSC efforts).
2. An optimistic, almost euphoric, feeling that quick success in community business ventures would result in visible economic benefits. This would in turn create a constituency in short order.<sup>2</sup>

The first assumption ignored the lessons learned from earlier anti-poverty programs in Appalachia. Previous examples cited herein produced little in the way of permanent social or economic change. Little evidence was afforded to a skeptical population that a new program would be any different. The second assumption ignored the "facts of life" regarding the success rate of small businesses and the elapsed time from conception to startup to self-sufficiency and all of the obstacles in between. The JSC belatedly recognized that attempts to organize could be counter-productive in the absence of tangible, goal-related action.

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<sup>1</sup>Ibid., p. 35.

<sup>2</sup>Job Start Corporation, "Proposal to the Office of Economic Opportunity for Refunding of Special Impact Funds --1973 through 1975," London, Kentucky, 1972, p. 14.





After the relative lack of success in such organizational efforts, the JSC decided to concentrate on business development and not to conduct organizational activities until substantial and visible business and economic development had been achieved.<sup>1</sup> As noted earlier in this section, present plans are to delay additional organizational plans until 1977. However, existing affiliations are to be maintained, and the individual affiliations of JSC staff and board members with community and professional organizations are encouraged.<sup>2</sup>

The existence of a successful CDC in Knox County should be noted because it does operate three business ventures while maintaining an affiliation with the JSC. Its relationship with the JSC is conceptually close to that envisioned for the CDCs yet to be organized. The Knox County CDC operates Lawson Furniture, a business venture started through the community resource rationalization approach,<sup>3</sup> and one of the ventures studied in the present research.

#### Federal Funding

As indicated earlier in this chapter, the JSC is considered a rural CDC. Table 8 indicates the funding level

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<sup>1</sup>Ibid., p. 15.

<sup>2</sup>Job Start Corporation, "Application for Continuation," pp. 25-26.

<sup>3</sup>Ibid., p. 19.



TABLE 8

SUMMARY OF OEO FUNDING OF ALL RURAL CDCs UNDER TITLE VII OF THE  
ECONOMIC OPPORTUNITY ACT OF 1964, AS AMENDED (FISCAL  
YEARS 1969-74) AND ACTUAL JSC ADMINISTRATIVE EXPENDITURES  
AND VENTURE CAPITAL INVESTMENT (FISCAL YEARS 1969-75)  
(in thousands of dollars)

	Fiscal Years							
	1969	1970	1971	1972	1973	1974	1975 <sup>a</sup>	Total
All rural <sup>1</sup>	2,524.0	10,039.0	7,470.0	9,803.0	13,893.0	13,950.0	..	57,679.0
JSC total funds <sup>2</sup>	...	368.4	1,003.0	17.0	...	1,200.0	..	2,588.4
JSC admin. exp. <sup>3</sup>	...	20.3	160.3	204.5	165.3	141.5	119.8	811.7
JSC venture inv. <sup>4</sup>	...	...	129.0	172.6	677.1	118.4	250.0	1,347.1

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- SOURCES: 1. Office of Economic Opportunity, "Summary of OEO Funding Under Title VII of the Economic Opportunity Act of 1964, as Amended, Fiscal Years 1968-74."
2. Idem, "Statement of OEO Grant," OEO Form 314, June 30, 1972 and May 7, 1973; Idem, "Statement of CAP Grant," CAP Form 14, July 1, 1969 and July 1, 1971.
3. Job Start Corporation, "CDC Administrative Funds Report," OEO Form 292, as submitted to OEO in the Quarterly Monitoring Report.
4. Idem, "CDC Investments in Ventures," OEO Form 293, as submitted to OEO in the Quarterly Monitoring Report.

<sup>a</sup>Through December 31, 1974.



received by JSC under the Special Impact Program together with the total expended on the rural CDC portion of the program. A tabulation of funds expended for administrative expenses and venture capital investment is also provided in the table. Funds are indicated in the fiscal year received although the funding period may extend beyond a single fiscal year. These data are presented to provide a perspective of the size of the JSC program and the funding in relation to the entire rural CDC program.

### Staffing

Perhaps the most frustrating problem encountered by the JSC in its formative period was the inability to develop a staff with the requisite abilities and backgrounds. This problem becomes understandable when the professional requirements and the geographical area are examined together. In general, all aspects of business and business analysis must be represented in order to function adequately. The ability to communicate within both the local political arena and the federal bureaucracy must be possessed by the staff. Relevant business experience and ability, executive talent, sensitivity to the problems of the Appalachian poor and the ability to perform as an advocate of this constituency within the federal bureaucracy are necessary. Add to these significant professional and personal requirements the need to settle in a remote mountain area, and the problem is brought into



perspective.<sup>1</sup> At present, the staff consists of seven professionals, including an executive director, and covers the business development, financial, overall community development, and community relations functions.<sup>2</sup> The legal function is fulfilled on a consulting basis.

### Board of Directors

Another factor bearing on the early development of anti-poverty work in Southeastern Kentucky was the fact that it was not unusual for Community Action Agencies to become involved in activities with political overtones. As indicated earlier, a nonprofit organization must be nonpolitical to qualify as tax exempt under provisions of the Internal Revenue Code. Certain politically oriented activities by these Community Action Agencies continued after formation of the JSC and became identified with the JSC. As a result, the Governor of Kentucky successfully opposed a refunding request from JSC in June, 1970.<sup>3</sup> One analysis indicated that some of the JSC board members, representing their local CAA, were heavily involved in political maneuvers, and their interests were not "as broad or as noble as might

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<sup>1</sup>Office of Economic Opportunity, "Highlight Memorandum," summary of 1969 JSC program under Title I-D of the Economic Opportunity Act of 1964, as amended), Washington, D.C., 1970.

<sup>2</sup>Job Start Corporation, "Application for Continuation," Appendix B.

<sup>3</sup>Office of Economic Opportunity, "Highlight Memorandum," 1970.





be wished."<sup>1</sup> However, with experience and understanding of the goals and constraints of the Community Development Corporations funded by the Economic Opportunity Act, this problem has almost disappeared, and such opposition is now infrequent.

### Accounting and Accountants

Yet another factor which has plagued the new venture experience of JSC has been the lack of adequate accounting and cost systems as well as the inability to attract accountants with manufacturing experience.<sup>2</sup> The establishment of manufacturing accounting controls, particularly in inventory, generated substantial problems in producing accurate financial statements.<sup>3</sup> This problem was not resolved completely for the first three years of Possum Trot's operation, and is only now nearing resolution at Lawson Furniture, almost four years after startup.<sup>4</sup>

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<sup>1</sup>Office of Economic Opportunity, "Monthly Report on the Job Start Corporation," memorandum from the program analyst for JSC, [about November, 1971].

<sup>2</sup>Ibid.; and Job Start Corporation, letter from Executive Director to Office of Economic Development, November, 24, 1972.

<sup>3</sup>Job Start Corporation, "Proposal for Refunding, 1973 through 1975," p. 13.

<sup>4</sup>Interview with Thomas Miller, Executive Director, Job Start Corporation, London, Kentucky, held in Washington, D.C., February 14, 1975.



An Evolving Philosophy

## Venture Selection

The four-stage strategy for venture selection and development has demonstrated a limited capability to foster community economic development. The foreclosure from the impact area of outside entrepreneurial talent and associated capital has eliminated a possible source of venture development and resulting community economic development.

Recognizing the limitations of the original venture strategy, JSC officials elected to work with two would-be entrepreneurs who had participated in an INED new enterprise workshop. It will be remembered from chapter I that the workshop is designed to locate and assist entrepreneurs interested in establishing businesses with projected sales potential of over \$1 million annually. The results of JSC experience with two such entrepreneurs are presented in greater detail later in this section and again in a subsequent chapter. Suffice it to say at this point that the experience has led JSC to accept the entrepreneurial search approach as an appropriate and attractive mode of venture establishment.

The JSC, however, is continuing the evolution in venture selection and establishment strategy. There are advantages in attracting outside entrepreneurial talent and capital to the Southeastern Kentucky impact area. But



JSC recognizes the desirability of developing potential local entrepreneurs who may have the requisite personal characteristics, ability, and aptitude. If these exist in local individuals, then all that is lacking is capital investment and continuing technical assistance, both of which JSC can provide.

These considerations have led JSC to develop what is referred to as a "mini-INED" concept. The goals of this program would be to identify and support local potential entrepreneurs whose financial goals are for businesses which would have net annual sales of \$500,000 or less.<sup>1</sup>

The process would have four phases:

1. Find and screen candidates. An initial pool of fifty to seventy-five potential entrepreneurs would result.
2. Conduct a generalized workshop for these candidates to identify the demands, difficulties, and rewards of being an entrepreneur. Analyze strengths and weaknesses of the individual and provide him with appropriate feedback.
3. Conduct a second workshop to provide further information to the individual regarding his strengths and weaknesses as a second-stage analysis. Provide training in specific areas such as marketing, interpersonal skills, finance, and venture analysis in the light of individual strengths and weaknesses.
4. Select individuals and ventures for one-on-one support in producing a business plan, including funding requirements and sources. JSC, of course,

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<sup>1</sup>Job Start Corporation, "A Proposal for an Entrepreneur Identification and Support Program" (Draft), London, Kentucky, [about February, 1975], p. 2. (Mimeographed.)



would be a prime source for such financial support but such support might be found in outside, non-governmental, sources.<sup>1</sup>

It is apparent that the philosophy embodied in this program contains a combination of the two approaches to venture establishment. Development of local persons as entrepreneurs and financial support provided by JSC represent community resource rationalization. The search for potentially talented entrepreneurs is concentrated in the local area but is only a variation of the entrepreneurial search approach. The apparent willingness to seek outside sources of financing, in addition to that provided by the JSC and other local sources, is evidence also of a broadening of the community resource rationalization approach.

The program also presents a possible answer to the problem of community leadership vacuums contributing to the difficulty of community organizing efforts by JSC. In an interview with the president of the Possum Trot Corporation, it was stated that out-migration trends must be halted and reversed if talented people are to remain in or return to this Appalachian area.<sup>2</sup> The opportunities for local entrepreneurship may provide the impetus for reversing out-migration, which, in turn, would retain or return

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<sup>1</sup>Ibid., pp. 9-10.

<sup>2</sup>Interview with Richard Martin, President, Possum Trot Corporation, in McKee, Kentucky, February 25, 1975.





additional potential political and community leaders in or to the area.

### Profitability

The present attitude toward venture profitability seems well-defined. As an example, two of the three manufacturing sites under the Possum Trot Corporation have recently been closed because they were an economic drain on the corporation as a whole. According to the president of Possum Trot Corporation, the decision to close was based purely on business considerations and was made by the venture management and venture board of directors. The feeling was that the community was able to accept the closures without their reflecting adversely on the JSC or on its goals. The idea of continuing a business as a purely social enterprise on a subsidized basis was rejected, at least for the short term. This is in line with the OED policy regarding venture profitability.<sup>1</sup>

### Summary

The philosophical development seems to be one which began at the idealistic end of the continuum, where social goals are paramount, and moves to a point where social and economic goals are viewed discretely. Movement now appears to be on a course where the best of both extremes will be

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<sup>1</sup>Office of Economic Development, "Policy Statement on Special Impact Program," p. 9.



rationalized into a more complete approach to community economic development.

### Growth of JSC

This section provides a brief overview of JSC growth in order that a perspective may be gained regarding the dimensions of JSC activity. The development of four firms which are of interest to this study is presented in narrative form. A succeeding chapter presents detailed financial and trend data together with a comparative analysis of the performance of the six firms providing the basis for this study.

#### Lawson Furniture

The Knox County Community Development Corporation established Lawson Furniture as two divisions in 1970. One division upholstered wooden frames manufactured by the other. The two divisions merged into Lawson Furniture in 1971. At the time the merger was noted to OED, in the third Quarterly Monitoring Report, 1971,<sup>1</sup> Lawson listed \$64,000 in assets.

Through its affiliation with JSC, the Knox County CDC has received \$520,000 in investment capital through 1974. The JSC is not involved in the operation or management of Lawson but acts largely as a funnel of SIP funds to

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<sup>1</sup>Unless otherwise noted, material for this section was developed from respective JSC Quarterly Monitoring Reports submitted to the Office of Economic Development during the period 1970 through 1974.



Lawson through the Knox County CDC. The JSC also includes Lawson and other Knox County CDC activity and financial reports in its Quarterly Monitoring Report to OED.

The Knox County CDC and the affiliated CAA, the Knox County Economic Opportunity Council, also receive funding directly from other government agencies, including other than SIP funds from OEO. Among these have been substantial manpower training funds which have in effect subsidized Lawson Furniture operations to a greater extent than other ventures included in this study.

The firm was established through the four-stage community resource rationalization approach described earlier.<sup>1</sup> Its growth has been substantial, but its fortunes are largely tied to those of the housing industry. Fourth Quarter 1974 and First Quarter 1975 indicate a substantial slowdown in sales volume. Additionally, a \$250,000 grant from JSC for planned expansion is being held by the Knox County CDC because of economic uncertainties in the current furniture market.

#### Possum Trot Corporation

The Possum Trot Corporation began as three separate manufacturing activities, each organized in a different county within the impact area. All three were developed in

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<sup>1</sup>See above, pp. 103-4.



the four-phase community resource rationalization model outlined earlier.<sup>1</sup>

### Rockcastle Wood Products

Rockcastle Wood Products began producing wooden backyard utility barns in April, 1970, in a garage in Rockcastle County, employing four men. Plans were drawn for its liquidation by Possum Trot in early 1973. At its peak, employment reached only five, and it was a marginal operation from the beginning. The JSC invested a total of \$34,700 in the three years of its existence. The decision to liquidate was based on purely economic grounds as discussed earlier in this chapter.<sup>2</sup>

### East Lake Industries

East Lake Industries began operations with two subdivisions in March, 1970. The Wood and Metal Division was established in an old movie theater in McCreary County. The primary product was pickup truck campers. This venture was short-lived and ceased operations in September, 1971.

The Fabric Division of East Lake Industries was a "cut-and-sew" operation, making children's stuffed toys in a rented grocery store, also in McCreary County. The initial products were designed by a consultant, Selengut Associates, as part of a children's environmental line.

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<sup>1</sup>Ibid.

<sup>2</sup>See above, p. 115.





At its peak, employment reached about twenty. The JSC invested a total of \$31,650 in this division of East Lake Industries. It was combined with Rockcastle Wood Products and Mountain Toymakers (discussed next) to form Possum Trot Corporation in January, 1973.

#### Mountain Toymakers

Production began in mid-September, 1970, in two back rooms of the Jackson County CAA offices. The products, children's stuffed toy animals, were designed, as for East Lake Industries, by Selengut Associates. In January, 1971, employment was placed at twelve and was up to twenty-one by April, 1973. The JSC invested a total of \$189,000 in Mountain Toymakers.

#### Combined organization

The Possum Trot Corporation was initially established in mid-1972 as a combined marketing organization for the three divisions described above. This organization replaced an early arrangement with Selengut Associates whereby Selengut acted as agent for JSC in establishing sales representatives to market the combined output of the three divisions. The three divisions were formally brought together as Possum Trot Corporation, a wholly owned subsidiary of JSC, in January, 1973. As indicated above, Rockcastle Wood Products was terminated shortly thereafter. East Lake Industries (Fabric Division) was closed in late



October, 1974, and remained closed as of the end of February, 1975. The decision to close the two operations was based strictly on business reasons, as indicated elsewhere. The highly labor intensive production operation is now located in a single facility in Jackson County. At the end of September, 1974, total employment at Possum Trot was seventy-one. However, employment was down to thirty-one at the end of December, 1974. Total investment in the Possum Trot Corporation--including those made in Rockcastle Wood Products, East Lake Industries, and Mountain Toymakers before they combined--is \$394,200.

In the financial analysis which follows in a subsequent chapter, the Possum Trot Corporation is considered from April 1, 1971, when the three firms entered stage III of the development process described earlier.

#### Outdoor Venture Corporation

The Outdoor Venture Corporation (OVC) is the first of two business firms formed with JSC assistance through the entrepreneurial search approach. OVC manufactures and markets low-priced, medium-quality camping tents and accessories through discount stores and other sporting goods retailers. The company was formed in August, 1972, by two entrepreneurs who invested \$130,000, and JSC, which invested



\$100,000 in common stock and \$120,000 in convertible debentures.<sup>1</sup> The company is located in Stearns, a small mining town in McCreary County.

A brief discussion of the entrepreneurial search as it relates to OVC will provide an operational definition of its process and how it has been used by JSC.

The two principals were located by an INED Associate through a member of a Knoxville, Tennessee, financial consulting firm. Subsequently, their entrepreneurial abilities and management skills were evaluated through an entrepreneurial workshop conducted by the INED staff. As one of the principals described it, the workshop was successful in demonstrating the participants' strengths and weaknesses and in pointing out areas of potential difficulty. A business plan was constructed, evaluated, and modified with INED's assistance and then presented to JSC for assessment as a possible venture capitalist. An agreement was then negotiated to satisfy JSC objectives as well as those of the entrepreneur.<sup>2</sup>

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<sup>1</sup>As in all JSC debenture purchases (and SVCDF debenture purchases, to be discussed in the next chapter), the intent is equity and not debt. The debentures were used as a device to provide ownership and control to the entrepreneurs while still protecting JSC objectives. Debenture purchases will, accordingly, be treated as equity in the analysis presented in a subsequent chapter.

<sup>2</sup>Interview with J. C. Egnaw, President of OVC, in Stearns, Kentucky, February 24, 1975.



Although the venture agreement is considered proprietary information and was not made available to this researcher, discussions with participants have indicated the general outline which the agreement may have followed. The concepts of ownership and control are primary issues: The concepts are most important, but they are separable.

Ownership defines the division of the gain while control defines the division of management responsibilities. By accepting a minority position, JSC gave the entrepreneurs both majority ownership and control. However, by the terms of debenture convertibility, entrepreneur performance and actions must remain within certain boundaries or the debentures convert to equity at JSC option. As examples, such conditions probably include a minimum sales-profit performance, agreement to remain within the impact area, and local hire to the maximum feasible extent. Through such attached conditions, JSC is content with a protected minority position while not having to cope with the problems of either management or ownership. The JSC investment, however, is clearly intended as equity.<sup>1</sup>

#### Phoenix Products, Incorporated

The second firm established through the entrepreneurial search approach commenced operations on November 1,

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<sup>1</sup>Interviews with Brian Haslett, INED Associate, in Belmont, Mass., September 9, 1974; and Egnew, OVC.





1973. The entrepreneurs were brought together with JSC through the INED workshop process. The financing provided by JSC under the venture agreement is similar to that provided to OVC. The agreement negotiated with Phoenix is also probably similar to the OVC-JSC agreement, with similar safeguards for the minority position.

Phoenix Products is located in Jackson County, about ten miles from the present Possum Trot facilities. The product line includes four models of fiberglass kayaks. The JSC investment was \$50,000 in common stock and \$55,000 in convertible debentures.

The initial experiences of Phoenix Products were most frustrating and discouraging. Delays in obtaining OED approval of the venture meant missing part of the first year's potential in sales in a seasonal market. Orders taken in anticipation of early approval could not be filled on time. The firm was branded with a reputation for poor delivery before it began operations. Both entrepreneurs were incapacitated through illness or injury throughout substantial periods of the first year when, typically, decisions and changing conditions are critical to the survival of a young firm. The unanswered question which arises in discussion of Phoenix is whether the venture would have survived without the personal commitment of the entrepreneurs. Now in its second year of operation, Phoenix



Products is projected to increase its sales volume substantially and to attain the break-even point.

### Other Activities

Appendix B provides a pictorial representation of the development and growth of JSC activities. Included is a brief description of ventures and other projects which are not of direct interest to this research.

The JSC capital investment in the economic development of its impact area through December 31, 1974, is summarized in table 9.

TABLE 9

JSC CAPITAL INVESTMENT IN IMPACT AREA ECONOMIC  
DEVELOPMENT THROUGH DECEMBER 31, 1974  
(in thousands of dollars)

	Fiscal Year					Total
	1971	1972	1973	1974	1975	
Possum Trot	79.0	132.6	169.7	12.9		394.2
Lawson Furniture	50.0		220.0		250.0	520.0
Outdoor Venture			220.0			220.0
Phoenix Products				105.0		105.0
Other		40.0	67.4	0.5		107.9
Total	129.0	172.6	677.1	118.4	250.0	1,347.1

SOURCE: Job Start Corporation, "CDC Investments in Ventures," OEO Form 293, as submitted to OEO in the Quarterly Monitoring Report for the years 1970 through 1974.



Summary

This chapter has presented a philosophical background and activity summary to illustrate the evolution of the JSC approach to venture establishment. Movement from sole reliance on the community resource rationalization approach to apparently complete reliance on the entrepreneurial search approach, followed by modification of the latter to effect a combination of the two approaches, has been described. The next chapter provides similar treatment of the Southwest Virginia Community Development Fund and is followed by a comparative analysis of trend and other data relating to venture economic performance.



## CHAPTER V

### THE SOUTHWEST VIRGINIA COMMUNITY DEVELOPMENT FUND

#### Introduction

This chapter presents the second case study of a CDC from which ventures were selected for study. The development of the physical and philosophical settings for the Southwest Virginia Community Development Fund closely follows the presentation pattern of chapter IV.

#### Background

The Southwest Virginia Community Development Fund (SVCDF) impact area offers a number of contrasts as well as similarities to that served by the Job Start Corporation. It is classified by the OEO as a rural CDC (as is Job Start) and employs a strategy of community economic development which is basically compatible with other rural CDCs. However, of the three geographical areas included in the impact area (see fig. 5), one is urban and two are rural. The urban area population is predominantly black and the rural areas are overwhelmingly white.

The northwest section of Roanoke City (Census Tracts 7 and 8, plus parts of six other census tracts) was about 30 percent white and 70 percent black





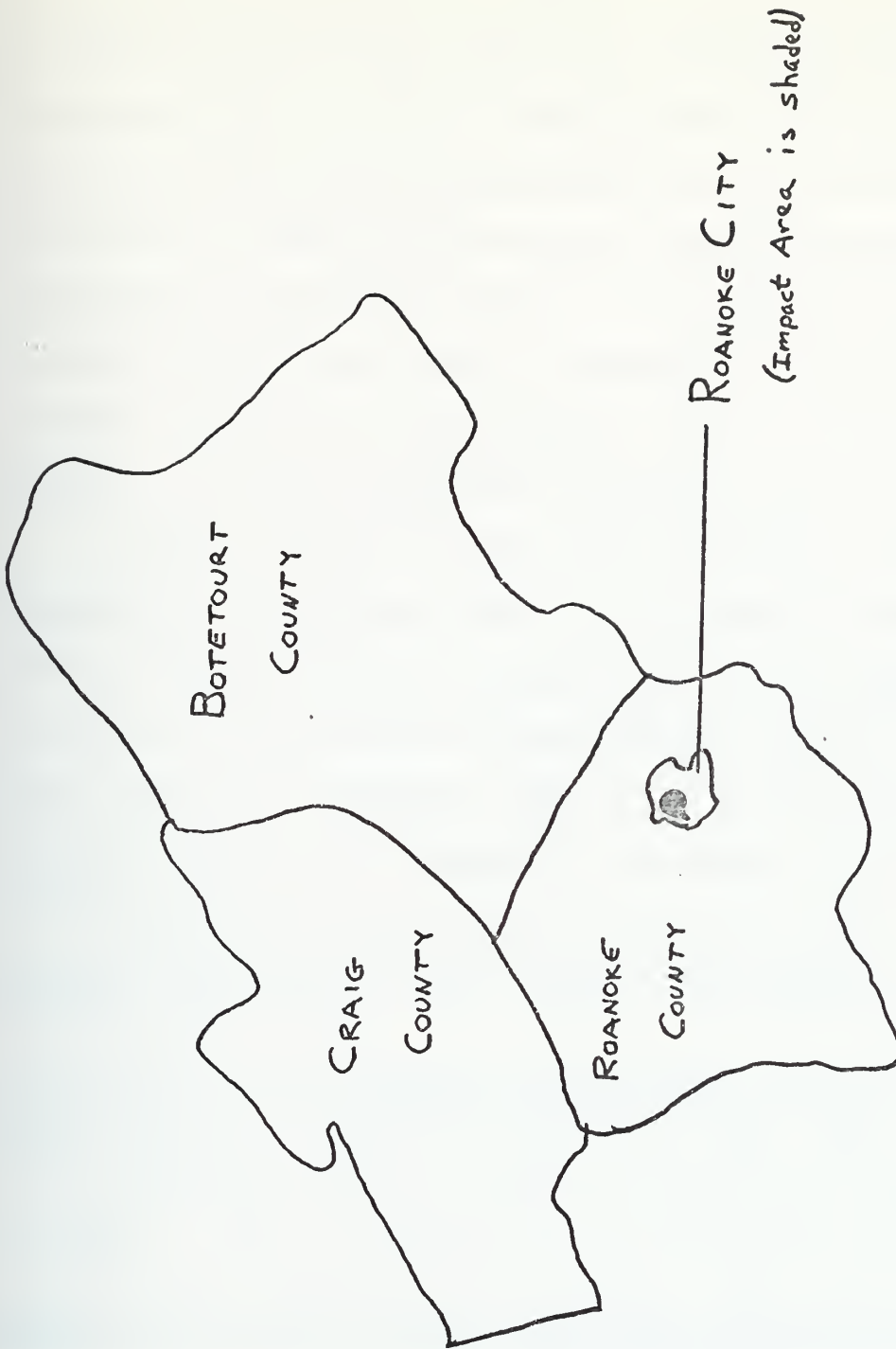


Fig. 5. Impact Area Served by Southwest Virginia  
Community Development Fund  
(Botetourt County, Craig County, and  
Northwest Section of Roanoke City)



in 1960,<sup>1</sup> a ratio which changed to 77 percent black and 23 percent white in 1970.<sup>2</sup> Unemployment was estimated by the Roanoke City Planning Department in 1970 as approaching 33 percent.<sup>3</sup> Many of those who are employed found their employment outside the community, with few of the economic benefits flowing back into the community. Fully 29 percent of those employed in Census Tracts 7 and 8 in 1970 were employed as private household or service workers.<sup>4</sup>

Craig County is rural and mountainous. Although unemployment approximated that of the state of Virginia in 1970 (3.5 percent versus 3.0 percent),<sup>5</sup> it is significant to note that 59 percent of those employed worked outside their county of residence. This is well above the overall Virginia figures.<sup>6</sup> No dentists, one doctor, and only two

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<sup>1</sup>Southwest Virginia Community Development Fund, "Proposal for Special Impact Funds," Blue Ridge, Virginia, April 4, 1969, p. 10.

<sup>2</sup>Southwest Virginia Community Development Fund, "Draft Proposal Application for Refunding of Special Impact Funds," Roanoke, Virginia, October 13, 1972, sec. III.

<sup>3</sup>Stewart Lichtman, "Southwest Virginia Community Development Fund," Washington, D.C., n.d., p. 2. (Mimeographed.)

<sup>4</sup>U.S., Department of Commerce, Bureau of Census, Census of Population and Housing, 1970: Census Tracts, Final Report PHC (1)-174, Roanoke, Virginia SMSA, Table P-3.

<sup>5</sup>U.S., Department of Commerce, Bureau of Census, County and City Data Book, 1972: A Statistical Abstract Supplement, Table 2, Counties.

<sup>6</sup>Ibid.



nonretail businesses (a sand and gravel plant and a pajama manufacturer) were doing business in the county in 1969.<sup>1</sup>

Craig County lies within the Jefferson National Forest and has only marginal agricultural activity and capability.

Botetourt County is rural and unindustrialized and is rapidly becoming a bedroom community for Roanoke. Original residents are leaving the county because of the rising costs of living which accompany suburban development. Unemployment is not high because of out-migration, but, as is frequently the case, those remaining behind lack salable skills and live in rural poverty. The out-migration poses a problem to nearby urban Roanoke because many of the migrants have gone there as the closest urban area.<sup>2</sup>

Table 10 summarizes pertinent demographic data, while figure 5 (p. 127) provides a geographic perspective for the impact area.

#### Philosophy of Business Venture Establishment

In early 1969, the major anti-poverty program in Roanoke was a Department of Labor-sponsored manpower training program under the supervision of an Opportunity Industrialization Center (OIC). The OIC, in turn, acted

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<sup>1</sup>Southwest Virginia Community Development Fund, "Proposal for Special Impact Funds, pp. 19-22.

<sup>2</sup>Office of Economic Development, "Southwest Virginia Community Development Fund--Briefing," Washington, D.C., [about 1973], p. 36. (Mimeographed.)



TABLE 10  
 DEMOGRAPHIC AND SOCIAL DATA FOR IMPACT AREA  
 SERVED BY SOUTHWEST VIRGINIA COMMUNITY  
 DEVELOPMENT FUND

	Craig County	Botetourt County	Roanoke City Census Tract 7	Roanoke City Census Tract 8	Roanoke City	Virginia
1970 Population	3,524	18,193	6,365	4,681	92,115	. .
White	3,524	16,702	394	529	74,167	. .
Negro	. .	1,485	5,966	4,146	17,784	. .
Percent Negro	. .	8.2%	93.7%	88.6%	19.3%	. .
Median education level attained by adults 25 and over	8.9	10.4	9.1	9.3	11.7	11.7
Percent workers working outside county of residence	59.0%	55.2%	. .	. .	. .	39.9%
Percent families below poverty level	18.0%	11.2%	30.7%	22.4%	10.9%	. .

SOURCES: Roanoke City data: U.S., Department of Commerce, Bureau of Census, Census of Population and Housing, 1970: Census Tracts, Final Report PHC(1)-174, Roanoke, Virginia SMSA, Tables P-1, P-2, P-3;

Botetourt and Craig County data: Idem, County and City Data Book, 1972: A Statistical Abstract Supplement, Table 2;

Virginia data: Idem, Census of Population, 1970: Final Report PC(1)-C48 Virginia, Table 124.





under the direction of the local Community Action Agency, Total Action Against Poverty (TAP).<sup>1</sup> In the late spring of 1969, TAP submitted a successful application for Special Impact Funds to establish a community development corporation, the Southwest Virginia Community Development Fund, intended to serve the impact area of Northwest Roanoke, Craig, and Botetourt Counties.<sup>2</sup>

The goals of the new CDC were generally to create income producing businesses and conduct needed social programs in the impact area. Maximum resident and business involvement was to be encouraged, and control vested in a broad-based board, representative of the participants. Real participation of residents in decision making and the financial investment process was considered essential.<sup>3</sup>

The composition of the board of directors provides an indication of the desire for broad community participation and community control. Of the twenty-eight members, four were to represent Northwest Roanoke; three, Botetourt County; and one, Craig County. The remaining twenty were to represent existing service and professional organizations in the area, such as NAACP, YMCA, and Chambers of Commerce.<sup>4</sup>

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<sup>1</sup>Lichtman, "Southwest Virginia Community Development Fund," p. 3.

<sup>2</sup>Center for Community Economic Development, Newsletter, July 15, 1972, pp. 2-10.

<sup>3</sup>Southwest Virginia Community Development Fund, "Proposal for Special Impact Funds," p. 29.

<sup>4</sup>Ibid., p. 31.



The decision process regarding business venture establishment was divided into three areas of responsibility:

1. Ideas for projects could originate in any part of the organization. However, each community, through proposed general membership organizations, was specifically encouraged to develop ideas based on the peculiar needs, interests, and resources of its members and area.
2. Setting of priorities for feasibility studies of project proposals submitted was the responsibility of the board of directors. Again, the influence of the communities and involvement in their own development is apparent.
3. The SVCDF staff was either to conduct the feasibility study or to monitor the performance of a consultant conducting the study. The staff and the board would then have the task of making the final decision, but not without substantial community involvement.<sup>1</sup>

It is worthy of note at this point that the process described in the initial proposal has remained substantially unchanged in the six-year history of SVCDF. The desire for community control and involvement is clearly illustrated in the concept and the way it was implemented. The two SVCDF business enterprises to be studied in the present research, Gainsborough Electrical Manufacturing Company and Botetourt Cabinet Corporation, evolved along the decision line indicated. Development of both ventures required the rationalization of community resources.

#### Affiliated Community Organizations

The desire and intent to foster community involvement in economic development is apparent in both the previously

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<sup>1</sup>Ibid., p. 44.



mentioned goals and their implementation through a board of directors drawn from community organizations. The SVCDF actively encouraged the formation of general membership organizations representing the poor and disadvantaged of each of the sub-areas it served. As noted, these organizations were considered a prime source of ideas for projects designed to foster community economic development.

The original funding request to OEO contained only one enterprise proposal, an electrical wiring harness manufacturer. This proposal was not fully developed at the time, and substantial additional planning was required before it could be implemented. The newly formed, small SVCDF staff and representatives of the General Electric Company (Salem) who were assisting in development of the new venture were all inexperienced in the problems and process of new business startup. Therefore, the company was not formed until August, 1970, and operations were not begun until September.<sup>1</sup>

The problems and delay experienced in creating visible results had a similar, concurrent effect on community organizing efforts. However, with the commencement of operations by the wiring harness manufacturer, a credible program and image were established. At this time, only a

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<sup>1</sup>Southwest Virginia Community Development Fund, "About the Southwest Virginia Community Development Fund," February, 1974, p. 3. (Mimeographed.)





single community general membership organization was in existence, the Craig Improvement Association.<sup>1</sup> The Botetourt Improvement Association was formed in March, 1971. The third general membership organization, the Community Organization for Research and Development, was formed in the summer of 1972 by the residents of Northwest Roanoke.<sup>2</sup>

The SVCDF has considered several variations of a plan to place ownership of the business ventures in the hands of the general membership organizations. The final version was described in the latest refunding proposal. It proposed the creation of a for-profit holding company, the Southwest Virginia Community Development Corporation (SVCDC). All of the stock in the ventures would be transferred from the nonprofit SVCDF to the new, for-profit SVCDC. Twenty percent of the stock in each venture would then be transferred to the general membership organization in whose area the venture was established. Another 10 percent of the stock would be set aside for venture manager-employee incentive programs. The remaining 70 percent of the stock would be retained by the holding company. Through this device, further community involvement and

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<sup>1</sup>Lichtman, "Southwest Virginia Community Development Fund," p. 6.

<sup>2</sup>Southwest Virginia Community Development Fund, Quarterly Monitoring Report, submitted to OEO, September 11, 1974.





a sense of ownership and commitment should result.<sup>1</sup>

Development of the SVCDF board, cooperation between the staff and affiliated general membership organizations, commonality of purpose, and direction have all been slow in coming. Among the obstacles were slow development of leadership in the community and a feeling that the venture should back the community instead of the community backing the venture. Although the community controlled the ventures through the board of directors, an understanding of the responsibility, authority, use, and power of that control was slow in developing.<sup>2</sup>

Although venture stock is to be transferred to the general membership organizations, the present state of those ventures indicates that their self-sufficiency is at best a long-range goal. Little in the way of profit distribution is likely to accrue to the general membership organizations soon. For the foreseeable future at least, the general membership organizations must continue to rely on SVCDF for both monetary and personnel support.<sup>3</sup> However, they will continue to provide ideas for community development

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<sup>1</sup>Southwest Virginia Community Development Fund, "Application for Refunding of Special Impact Funds, February 1, 1975--January 31, 1977," Roanoke, Virginia, November 26, 1974, sec. III, pp. 30-35.

<sup>2</sup>Southwest Virginia Community Development Fund, "Draft Proposal Application," sec. II.

<sup>3</sup>Southwest Virginia Community Development Fund, "Application for Refunding," sec. II, p. 12.



projects, assessment of community need, and availability of important resources for development.

All three general membership organizations were incorporated in 1974. It is interesting to note that non-profit status was not indicated in the incorporation papers, leaving open the option of politically oriented activity.<sup>1</sup>

#### Federal Funding

The SVCDF is considered a rural CDC despite the fact that one part of its impact area is urban. Table 11 provides a tabulation of funding provided to SVCDF under the Special Impact Program. For comparative purposes, totals for rural CDCs are also provided. Funds are indicated in the fiscal year received, although expenditure may occur throughout a program period exceeding one fiscal year. Venture and administrative fund expenditures are also indicated to provide a perspective on the relative size and division of effort in the SVCDF program.

#### Board of Directors

The original concept for board of director membership provided that twenty of the twenty-eight members would come from established community service and professional organizations. Not all such organizations invited to participate have done so. With the transfer of partial

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<sup>1</sup>Ibid., p. 35.



TABLE 11

SUMMARY OF OEO FUNDING OF ALL RURAL CDCs UNDER TITLE VII OF THE  
ECONOMIC OPPORTUNITY ACT OF 1964, AS AMENDED (FISCAL  
YEARS 1969-74) AND ACTUAL SVCDF ADMINISTRATIVE EXPENDITURES  
AND VENTURE CAPITAL INVESTMENT (FISCAL YEARS 1969-75)  
(in thousands of dollars)

	Fiscal Year							
	1969	1970	1971	1972	1973	1974	1975 <sup>a</sup>	Total
All rural <sup>1</sup>	2,524.0	10,039.0	7,470.0	9,803.0	13,893.0	13,950.0	..	57,679.0
SVCDF total <sup>2</sup>	547.5	500.0	800.0	15.3	1,923.6	..	..	3,786.4
SVCDF Admin <sup>3</sup>	NA	NA	136.7	207.7	NA	552.4	231.6	NA
SVCDF Venture <sup>4</sup>	..	..	116.3	404.8	48.0	556.5	342.0	1,467.6

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- SOURCES: 1. Office of Economic Opportunity, "Summary of OEO Funding Under Title VII of the Economic Opportunity Act of 1964, As Amended, Fiscal Years 1968-1974."
2. Idem, "Statement of OEO Grant," OEO Form 314, June 21, 1972, March 9, 1973, and June 30, 1973; and Idem, "Statement of CAP Grant," CAP Form 14, June 30, 1969, June 30, 1970, and June 30, 1971.
3. Southwest Virginia Community Development Fund, "CDC Administrative Report," OEO Form 292, as submitted to OEO in the Quarterly Monitoring Report.
4. Idem, "CDC Investment in Ventures," OEO Form 293, as submitted to OEO in the Quarterly Monitoring Report.

<sup>a</sup>Through December 31, 1974.



ownership and accompanying growth in vested interest and control within the general membership organizations, the role for other community organizations on the board of directors is greatly diminished. As a result, current membership on the SVCDF Board is limited to representation of the three general membership organizations. Community service organizations may attain representation through the general membership organizations if desired.<sup>1</sup>

#### Other Problems

Management and entrepreneurial skills are normally developed in the course of training, education, and work experience. Such skills were largely nonexistent within the three communities. Committed as it was to community resource rationalization in business venture establishment, the shortage of such skills within the community presented difficult problems to SVCDF and to its ventures. Managers from within the community were hired and essentially trained on the job. Similarly, no available reservoir of skills existed among the members of the community work force. Since one of the goals of SVCDF is the creation of jobs for local residents, development of manual and technical skills also had to occur on the job.<sup>2</sup> Import of such resources

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<sup>1</sup>Ibid.

<sup>2</sup>Office of Economic Development, "Southwest Virginia Community Development Fund--Briefing," pp. 36-37.





from outside the community was simply not compatible with the goals and objectives of the SVCDF. This factor was to plague the operations of the electrical wiring manufacturer, as will be discussed in a later section.

### An Evolving Philosophy

#### Venture Selection

In describing their goals and objectives for the two-year funding period beginning February 1, 1975, the Staff and Board of Directors of SVCDF appear to be subtly changing emphasis. The overall, general goal of community control remains, but its definition of community control seems to be undergoing rethinking. The sub-goals relating to venture development and community development also remain, but the approach to achieving them seems also to be changing.

Previous activities and procedures in establishing ventures have emphasized community involvement and control. For example, community organizations have served as prime sources of ideas for new ventures. Substantial staff and board time are devoted to deliberations and decisions related to these suggestions. While this will continue, added emphasis may be expected on selection of projects which show economic promise but may originate from other sources. Community development and involvement will continue to be important but may be expected to be viewed somewhat more distinctly from venture or business goals. That success



in meeting the broader goals depends to a great extent on attainment of venture development goals is a conclusion that seems to have become central.<sup>1</sup>

Conversations with the executive director indicate that complete reliance on community resource rationalization with accompanying total ownership may not be the only SVCDF strategy in future venture selection and development. Should a promising venture and entrepreneur come along, an appropriately protected and defined minority position could be quite acceptable to the SVCDF staff and board of directors as being well within the boundaries of community control. Whether SVCDF philosophy has evolved to the point where the CDC would actively engage in entrepreneurial search as the Job Start Corporation does is a question which remains to be answered.<sup>2</sup>

### Profitability

The new emphasis on venture profitability and self-sustenance appears to derive from the conviction that profits are essential to the achievement of the broader goals. Only through sustained profits can venture growth be expected. Numbers of jobs and training opportunities will increase as a direct result, contributing directly to the achievement of

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<sup>1</sup>Southwest Virginia Community Development Fund, "Application for Refunding," sec. V, pp. 16-17.

<sup>2</sup>Interview with Thomas Morse, Executive Director, Southwest Virginia Community Development Fund, in Roanoke, Virginia, February 26, 1975.



community economic development.<sup>1</sup> The emphasis on venture profitability appears to be consonant with the stated OED policy of short-term profit maximization as a goal for CDC ventures.<sup>2</sup>

The decision sequence, responsibility, and criteria for closing a business and terminating an investment are further indications of the developing philosophy regarding venture profitability. An examination of financial data contained in a later section of this study shows that at least one of the SVCDF ventures is experiencing difficulties. Decisions will soon have to be made regarding its future. Should the decision be made to terminate, it will be made almost exclusively on the economic viability of the venture. The board of directors of the firm to be terminated will be at the primary decision level, but the SVCDF, as 100 percent owner, will be directly involved. The executive director of SVCDF firmly believes that the board members are sufficiently committed to the concept of venture profitability as a prerequisite to community development that economic viability will be the determinant rather than any purely social concept or commitment. He also believes that the community understands the need for economic success in its

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<sup>1</sup>Southwest Virginia Community Development Fund, "Application for Refunding," sec. II, p. 11.

<sup>2</sup>Office of Economic Development, "Policy Statement on Special Impact Program," p. 9.



ventures. This does not alter the fact that any such closure would be a major setback but is an indicator that the community is now resilient enough to accept such an event and will not withdraw its support of SVCDF as a result.<sup>1</sup>

### Summary

The picture which emerges is one of movement along a philosophical continuum from a point where idealistic solutions were sought in response to real-world problems, toward a point where compromise is possible and where situations do not require a 0,1 response. An additional wide range of possibilities for investment is being explored along with other activities, which might not have been considered three years ago.

### Growth of SVCDF

In this section, a brief overview of SVCDF growth and development is presented to provide a perspective on the types and dimensions of activity in which it has engaged. A more detailed narrative is presented of the two ventures that are of particular interest to this study, Gainsborough Electrical Manufacturing Company (GEMCO) and Botetourt Cabinet Corporation (BCC). The next chapter presents detailed financial and trend data together with a comparative analysis of the business performance of the six firms providing the basis for this study, including GEMCO and BCC.

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<sup>1</sup>Interview with Morse, SVCDF.





## GEMCO

The original funding request for Special Impact Funds as submitted by the Community Action Agency provided for the formation of an electrical wiring harness manufacturer. Assistance was provided by the General Electric Company (GE) (Salem, Virginia, division) in development of the business plan. Acceptance and funding by OED was influenced in part by GE's agreement to become a major purchaser of the output of the new firm. Progress after funding, however, was slow. An SVCDF staff had to be formed to conduct all of the activities envisioned in the community economic development plan, including the venture establishment. The executive director was not hired until October, 1969. Neither the newly formed SVCDF staff nor the GE personnel involved had had extensive experience in venture startup. Therefore, it was September, 1970, fifteen months after initial OEO funding, before operations commenced at the GEMCO facility.<sup>1</sup>

The initial SVCDF investment in GEMCO totaled \$47,000. Total investment by SVCDF through December, 1974, was \$375,200. This amount includes a recent investment of \$75,000 toward the development of a plastic injection molding capability to be developed in calendar year 1975.

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<sup>1</sup>Unless otherwise noted, material for this section was developed from the respective SVCDF Quarterly Monitoring Reports submitted to the Office of Economic Development during the period 1970 through 1974.



The primary investment instrument used by SVCDF is a three-year convertible, renewable debenture. The intention of SVCDF is that the debenture represent capital investment and not long-term debt.<sup>1</sup> Equity carried on the balance sheet since formation of the company totals \$40,700, but the amount treated as equity in the analysis presented in the next chapter includes SVCDF debentures as investment capital rather than debt.

A major goal of GEMCO has been the development of substantial sales to customers other than GE. However, throughout its four-and-a-half-year history, sales by GEMCO to GE have averaged between 65 and 75 percent of the annual totals. Other customers have included IBM, Sperry-Marine, and Western Electric.

Among the serious problems encountered by GEMCO have been quality control and management information system development. As an example of quality control problems, in January, 1974, Western Electric returned \$2,800 worth of harnesses on which the harness wiring had been damaged during the stripping operation of fabrication. This one lapse ultimately led to the scrapping of about eighty harnesses and a \$9,600 loss in February, 1974, alone. The institution of proper controls and inspections resulted in a net loss of \$20 per harness on subsequent Western Electric production.

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<sup>1</sup>Interview with Morse, SVCDF.



In mid-1973, an error was found in finished goods and work-in-process inventories which had produced overstatement of profits throughout the year. Both problems are not uncommon in new, small businesses.

GEMCO began its operations with twenty-one employees in September, 1970, and employment exceeded sixty by the end of 1974. Sales (net in current dollars) grew from about \$75,000 in its first full year of operation to about \$517,000 in the fiscal year ending July 31, 1974. A \$25,000 bank line of credit has been arranged through the pledging of specific receivables.

#### Botetourt Cabinet Corporation

Planning for the second major venture by SVCDF began in January, 1970, with an original target for commencement of operations of July, 1971. The Botetourt Cabinet Corporation was formed to produce low-cost, medium quality kitchen cabinets for new housing construction, using an assembly clip device which would allow easy assembly of components at installation sites. Ironically, the potential of the clip device was never fully realized, and cabinet shipments have been in fully-assembled condition.<sup>1</sup>

Initial SVCDF investment was set at \$200,000, with a group of six local Roanoke banks investing \$280,000 under

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<sup>1</sup>Interview with Richard M. Long, Director of Business Planning and Research, SVCDF, at the Botetourt Cabinet Corporation, Fincastle, Virginia, February 27, 1975.





SBA guarantee of 90 percent. The financing arrangements were almost complete by July, 1971, but difficulties in obtaining OEO approval of feasibility and market studies caused substantial delays. A new building was constructed in rural Botetourt County near Fincastle, and operations finally commenced in September, 1972. Initial SVCDF investment by that time had risen to \$270,000. The SVCDF investment through 1974 totals \$545,000. SVCDF investment instruments in BCC are renewable, convertible debentures, but are treated as capital investment in the analysis which follows in the next chapter.

Management information system errors were found in BCC records in mid-1973. Understatement of Cost of Goods Sold resulted in overstatement of profits in BCC's first several months of operation. A similar problem appeared in early 1974.

Perhaps the most serious problem faced by BCC has been a negative cash flow, first reported in October, 1973. At the end of March, 1974, cash available was \$17,000 against a goal of \$160,000. In July, 1974, cash on hand was reported as \$28,400 against a goal of \$211,800. At the end of the fiscal year, November 30, 1974, cash on hand had fallen to \$1,400. Several factors contributed to this situation. The rapidly rising cost of materials throughout 1974 found BCC using higher-cost materials in fulfillment





of contracts consummated earlier and based on lower materials costs. Additionally, the average age of accounts receivable increased rapidly to 75.7 days by October, 1974, against a goal of 63 days. The depressed condition of the housing industry is in some degree responsible for this increase and has prompted BCC to enter the replacement and repair market for kitchen cabinets.

BCC began its operations with twenty-three employees and had twenty-eight at the end of November, 1974. Its first-year sales were \$379,000, and second-year sales \$702,400 (net at current dollars). As with all SVCDF ventures, almost all employees were recruited from the impact area.

#### Other Activities

Appendix C provides a pictorial representation of the development and growth of SVCDF activities. Included is a brief description of ventures and other efforts which are not of direct interest to this study.

Table 12 summarizes SVCDF capital investment in the economic development of its impact area through December 31, 1974.

#### Summary

This chapter has provided a philosophical background and activity summary to demonstrate the application of community resource rationalization as pursued by SVCDF in



TABLE 12

SVCDF CAPITAL INVESTMENT IN IMPACT AREA ECONOMIC  
DEVELOPMENT THROUGH DECEMBER 31, 1974  
(in thousands of dollars)

	Fiscal Year					Total
	1971	1972	1973	1974	1975	
GEMCO	102.0	78.2	20.0		175.0	375.2
BCC		265.0		130.0	150.0	545.0
Craig Furniture				380.0		380.0
Impact Housing		62.5	15.0			77.5
Cherry Hill				11.5		11.5
Other	15.0		13.0	35.0	17.0	80.0
Total	117.0	405.7	48.0	556.5	342.0	1,469.2

SOURCE: Southwest Virginia Community Development Fund, "CDC Loans and Loan Guarantees--Loans and/or Loan Guarantees Outstanding," OEO Form 294, as submitted to the OEO in the Quarterly Monitoring Report for the years 1970 through 1974.



achievement of its community development goals. The next chapter presents a comparative analysis of the economic performance of ventures generated under the entrepreneurial and community resource rationalization approaches to venture establishment.



## CHAPTER VI

### RESULTS

#### Introduction

Previous chapters have established the existence of variations in approach to the achievement of community development. These variations rest largely on concepts of community control and the degree to which business ventures established to foster community development must be subject to such control. The two approaches to business venture establishment which are of interest to this study reflect the conflict among mixed objectives--social, political, and economic.

In this chapter, data gathered as described in chapter I are presented and analyzed in order to provide answers to the subsidiary research questions, which in turn will support an answer to the primary research question: Are there differences in the economic performance of rural Community Development Corporation manufacturing ventures established through the entrepreneurial search approach and those established under the community resource rationalization approach?

To this end, the presentation of results is organized around the subsidiary questions, each of which





is presented in a separate section to be developed as follows:

1. Statement of the subsidiary question
2. Specific performance measure definitions
3. Data presentation, analysis, and conclusions relating to the subsidiary question

The discussion of the subsidiary questions is prefaced by a brief examination of data collection results and a restatement of the methodology as introduced in chapter I. The subsidiary question discussion is followed by a synthesis of answers to the subsidiary questions which will support conclusions regarding the primary research question.

#### Data Collection

As indicated earlier, two visits to each CDC site were required to supplement and validate data gathered at OED. Neither source alone would have been adequate to support the study.

Primary reliance for basic financial information was placed on audited statements. For BCC, GEMCO, OVC, and Phoenix, the audits were readily available and provided sound basic information. However, only two annual audits for Lawson Furniture could be found and original financial data were not made available. Consequently, the financial picture was reconstructed through a detailed examination



of quarterly reports submitted to OED, new product or expansion feasibility reports, refunding proposals, and correspondence files. The picture thus constructed was reconciled with the audits that were available.

Possum Trot posed a minor problem in that audited statements were available for all but six months of its life. These periods were reconstructed much as Lawson records were. They were then adjusted to reflect a 1974 change in fiscal year, to end on March 31 rather than December 31.

Data regarding the level of CDC Technical Assistance provided to the ventures were in some cases incomplete. Where it was necessary, the data were estimated (with the assistance of CDC personnel) on the basis of the amount of CDC administrative funds expended, the amounts of technical assistance provided other firms, the stage of life of the firm (i.e., startup, first year, etc.), and the narrative of CDC staff and venture activity provided in the monitoring report.

Government manpower training subsidies were not always listed separately on financial statements but were simply included as other income. In these situations, the subsidies were estimated or apportioned from other records.

As is to be expected in a research study, collection and reconciliation of data was a problem requiring diligent effort.



Supporting data are included in appendix D.

### Methodology

Data tabulations which follow are presented by venture and by the chronological age of the venture operation. This display facilitates the comparison of performance data for ventures of the same chronological age. The reader is referred to figure 2 (page 19), which illustrates the life span of the ventures studied. It indicates the calendar year, the fiscal year, and the chronological age for the venture operation. Also shown are the sponsoring CDC and the approach used in establishment of the venture. The reader is reminded that this study does not attempt to assign interval or ratio levels of quantification to the results of indicated venture performance. Rather, interpretation relies on trends and differences noted through performance comparison at the same venture age and on extrapolations based on past and current performance and future projections to provide a statement of ordinal quantification with regard to ventures and measures used.

The general limitations of the data are again recognized. Of the two entrepreneurial search ventures, one has been in existence for two years and the other for only one year. However, the subject matter is time sensitive for the reasons indicated in chapter I, and if performance and performance-related strategy differences can be



identified, then the study and its conclusions can have an important effect on program administration.

Only ratios are presented for comparative purposes. Data used for ratio computation may be found in Appendix D.

Finally, figure 6 provides an initial comparison of the ventures, in both size and growth in terms of annual sales (1971 dollars). It should be noted that Lawson and GEMCO have experienced sixfold sales volume increases over four years of operation while Possum Trot sales have more than doubled in its four-year life. BCC sales increased by two-thirds and OVC sales by one-third in their second year of operation. Projections for the current fiscal year, however, show a reduction in sales growth rate for all ventures except OVC and Phoenix, both of which will substantially improve their sales performance of the past fiscal year. The last two are the entrepreneurial ventures.

### Presentation of Results

#### First Subsidiary Question

Are there differences in the generation of private source investment capital and debt financing?

The answer to this question is of fundamental interest to this study because it focuses simultaneously on venture strategy, results, and future viability.





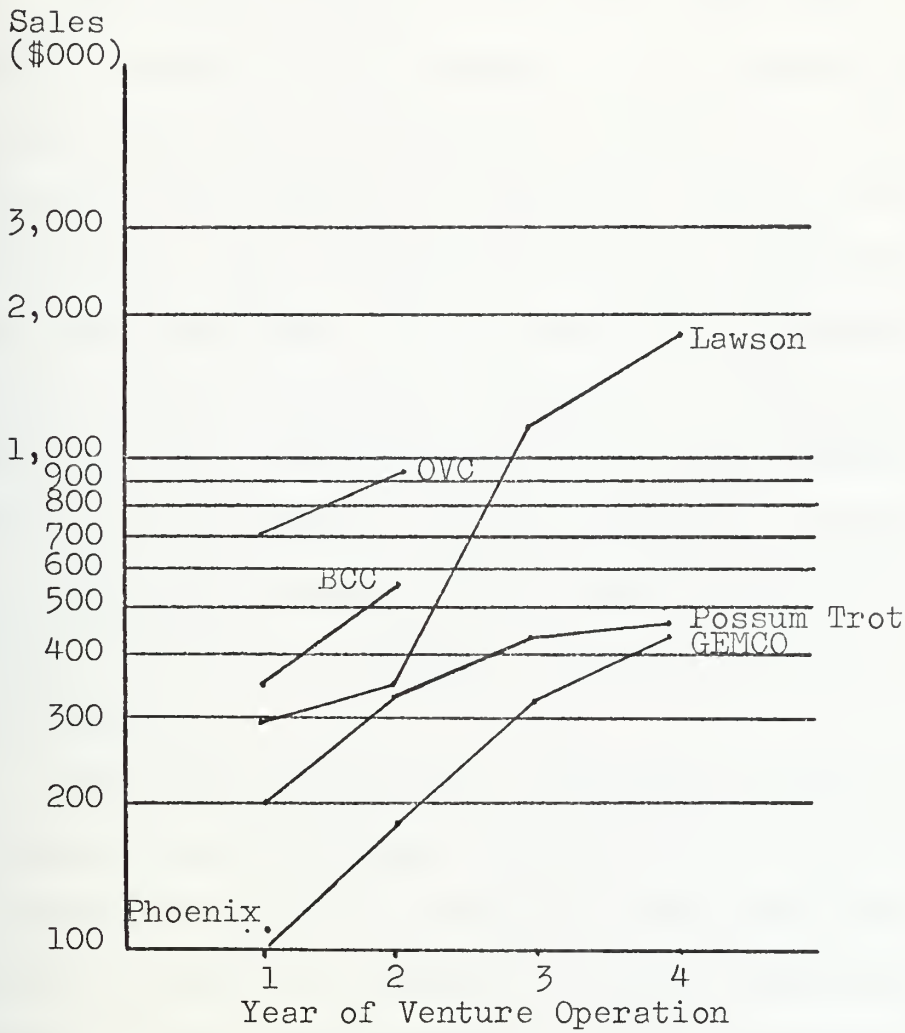


Fig. 6. Venture Sales Trend  
(semi-log display)  
(1971 dollars)

(See appendix D, table 23, for supporting data.)



Performance measurement

The general measure used is leverage.<sup>1</sup> However, the specific measure takes four forms. The first of these is the more usual one of Total Debt divided by Total Assets.

The second specific measure is Total Debt divided by CDC Investment in the venture. It is closely related to the Debt/Worth ratio because the CDC generally provides the only capital investment in a community resource rationalization venture. The entrepreneur provides capital in addition to the CDC investment. This calculation represents a relationship between government investment, a particular form of equity, and the demonstrated ability of the venture to attract or successfully seek debt financing. Differences in the Debt/CDC Investment ratio then may indicate a different financial strategy or varying ability to attract debt financing.

The third measure is a variation of the second in that it relates total government funds received to debt financing. In addition to the CDC investment, other government funds may be provided to the venture to defray operating or other expenses. These funds originate outside the Special Impact Program, but, as will be shown presently, are of substantial

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<sup>1</sup>Leverage may be defined as the measure of the contribution of the owners as compared to debt financing. It has risk and gain implications for both owners and creditors. See J. Fred Weston and Eugene F. Brigham, Managerial Finance, 4th ed. (Hinsdale, Ill.: Dryden Press, 1972), pp. 21-23, 31-33.



importance to the viability of some of the firms studied. The third measure, then, relates Total Government Funds received by the venture to Total Debt. It more directly and completely relates the venture's reliance on government funding to its reliance on traditional debt financing.

The fourth measure examines the record of the ventures in attracting and utilizing outside sources of financing. Two specific types of negotiated debt, bank lines of credit, and long-term debt are related to CDC Capital Investment. These represent major sources of financing found in the financial structure of the ventures and provides a measure of the reliance of the venture on outside or nongovernmental financing.

#### Data, analysis, and conclusions

Table 13 provides the first comparison of leverage as defined above and as used by the six ventures.

The following points apply:

1. BCC shows the highest Debt/Asset ratio. More than 60 percent of BCC's debt is included on one loan carried by a consortium of Roanoke-area banks with an SBA guarantee of 90 percent. Therefore, the bank exposure is only 10 percent of the outstanding balance. The remainder is government insured. Elimination of this factor reduces the BCC ratios to .167 and .325 for the first and second years of operation.



These are comparable to those of other ventures established through community resource rationalization.

TABLE 13  
LEVERAGE COMPARISON: TOTAL DEBT  
DIVIDED BY TOTAL ASSETS

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	.064	.057	.101	.041
Lawson	.018	.101	.286	.293
GEMCO	.162	.188	.232	.510
BCC	.824	.745		
OVC	.238	.634		
Phoenix	.435			

SOURCE: Venture Financial Statements (see appendix D table 23, for supporting data).

2. GEMCO's fourth-year figure is well above its average either before or after.

3. Both entrepreneurial venture ratios are generally above those of other similar age ventures. However, OVC has a long-term, SBA-guaranteed loan for \$350,000 outstanding in its second year of operation. Omission of this loan would reduce the OVC ratio for its second year to .335, which is still somewhat higher than most of the other firms and a higher ratio than experienced in its first year of operation.





Table 14 provides the second comparison, relating Total Debt to CDC Investment in the venture.

TABLE 14  
LEVERAGE COMPARISON: TOTAL DEBT  
DIVIDED BY CDC INVESTMENT

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	.080	.057	.133	.048
Lawson	.030	.480	.875	.759
GEMCO	.143	.147	.200	.602
BCC	1.324	.755		
OVC	.533	3.373		
Phoenix	.901			

SOURCE: Venture Financial Statements (see appendix D, tables 23 and 25 for supporting data).

The following points apply:

1. The same comments as above (pages 157-58) apply to BCC, OVC, and GEMCO ratios.

2. Substantial variation between entrepreneurial and community resource rationalization ventures are observed. OVC and Phoenix have used a greater proportion of outside debt than have any of the other firms. Except for Lawson, the other firms use relatively little outside debt. Even in their initial years, when lack of performance history lessens the firm's attractiveness to creditors as a risk, both Phoenix and OVC have attracted such financing.



3. Table 14 does not provide the complete picture. Both entrepreneurial ventures have entrepreneur capital invested. This lowers the Debt/Worth ratio. The indications are that the entrepreneurial firm is able to obtain debt financing due either to different strategies, capabilities, or financial structure or a combination of all three factors.

Table 15 provides the third measure, reinforcing the indications found in table 14 (page 159) and further emphasizing the relatively greater role of government funds in the community resource rationalization venture.

TABLE 15

LEVERAGE COMPARISON: TOTAL DEBT DIVIDED  
BY TOTAL GOVERNMENT FUNDS RECEIVED

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	.031	.033	.082	.029
Lawson	.017	.164	.469	.426
GEMCO	.132	.128	.136	.368
BCC	1.279	.714		
OVC	.519	3.212		
Phoenix	.833			

SOURCE: Venture Financial Statements (see Appendix D, tables 23 and 25 for supporting data.)

The inclusion of all government funding provided to the ventures significantly increases the ratio denominator



for the community resource rationalization ventures.

This is illustrated by the fact that the ratios for those ventures declined relatively more than did the entrepreneurial ventures.

Table 16 provides the final measurement of leverage, relating bank lines of credit and long-term debt to CDC Investment Capital. These are major types of outside funding used by the ventures.

TABLE 16

LEVERAGE COMPARISON: AVAILABLE BANK LINES  
OF CREDIT AND LONG-TERM DEBT DIVIDED BY  
CDC INVESTMENT CAPITAL

	Fiscal Year of Venture Capital			
	1	2	3	4
Possum Trot	0	0	0	.228
Lawson	0	0	.741	.385
GEMCO	.214	.139	.125	.125
BCC	1.057	.508		
OVC	1.364	5.682		
Phoenix	1.114			

SOURCE: Job Start Corporation and Southwest Virginia Community Development Fund, 1975 (see appendix D, table 26 for supporting data).

As indicated earlier, two of the ventures, BCC and OVC, have negotiated long-term, SBA-guaranteed loans arranged through local area banks.



Each of the ventures, except BCC, has successfully negotiated some level of bank line of credit. However, the entrepreneurial firms have attracted a greater total level relative to CDC Capital Investment than have the other ventures.

It has been demonstrated that the community resource rationalization ventures rely more heavily on government funding. The corollary is now apparent: the entrepreneurial ventures attract and utilize a higher proportion of outside financing. The consequences of these conclusions will become more apparent when the Return on Investment for the six firms is examined in the next section.

The first subsidiary question must be answered affirmatively: differences do exist in the generation of private source investment capital and debt financing.

#### Second Subsidiary Question

Are there differences in profit-income performance and elapsed time from inception or startup to break-even?

#### Performance measurement

The measure used here is Return on Investment (ROI), relating Net Income Before Taxes to Total Assets. Two forms of that measure are applied.

The first measure simply calculates the ratio of Reported Net Income Before Taxes to Total Assets.





As in the previous section, an effort is made to demonstrate the degree of reliance the venture places on government funding. To that end, a second measure will subtract the Annual Government Contribution to Operating and Other Expenses from Reported Net Income Before Taxes. The remainder will provide a different estimate of Net Income Before Taxes. The new estimate in turn will be related to Total Assets to provide a second estimate of ROI.

Data, analysis,  
and conclusions

Table 17 provides the first comparison of ROI as defined above.

TABLE 17

RETURN ON INVESTMENT COMPARISON: REPORTED  
NET INCOME DIVIDED BY TOTAL ASSETS

	Fiscal Year of Venture Operation				
	1	2	3	4	5
Possum Trot	-.374	-.184	+.040	+.017	(+) <sup>a</sup>
Lawson	+.515	+.349	+.125	-.086	(-) <sup>a</sup>
GEMCO	-.545	-.191	-.012	-.072	(-) <sup>a</sup>
BCC	-.324	-.341	(-) <sup>a</sup>		
OVC	+.056	+.075	(+) <sup>a</sup>		
Phoenix	-.342	(+) <sup>a</sup>			

SOURCE: Venture Financial Statements (see Appendix D, table 23 for supporting data).

<sup>a</sup>Forecast for next fiscal year.



The following points apply:

1. Only three of the firms have experienced profitable years--Possum Trot, Lawson, and OVC. A comparison indicates that Lawson is perhaps the most consistently profitable. However, a loss in the fourth year is followed by a projected loss in the fifth. Following early unprofitability, Possum Trot has experienced two profitable years in a row with profitability forecast for the fifth year.

2. OVC has suffered no unprofitable years, and both Phoenix and OVC are forecast to be profitable in the next fiscal year of operation.

3. A clear pattern of ROI does not emerge in this table, however.

Table 18 provides the second measure of ROI, as defined above.

The following points now apply:

1. The government contribution to annual operating and other expenses has now been subtracted from the Reported Net Income Before Taxes to approximate the Net Income which would have been realized in the absence of such government funding.

2. Possum Trot, GEMCO, and BCC have not had a single profitable year under the new ground rules. Lawson experienced profits in its first two years of operation only. All are projected to lose money in the next fiscal year of



operation in the absence of continuing government contributions to defray expenses.

TABLE 18

RETURN ON INVESTMENT COMPARISON: REPORTED  
NET INCOME LESS ANNUAL GOVERNMENT  
CONTRIBUTION TO OPERATING EXPENSES  
DIVIDED BY TOTAL ASSETS

	Fiscal Year of Venture Operation				
	1	2	3	4	5
Possum Trot	-1.636	-.338	-.031	-.046	(-) <sup>a</sup>
Lawson	+ .014	+.115	-.041	-.215	(-) <sup>a</sup>
GEMCO	- .638	-.316	-.403	-.208	(-) <sup>a</sup>
BCC	- .346	-.379	(-) <sup>a</sup>		
OVC	+ .044	+.071	(+) <sup>a</sup>		
Phoenix	- .381	(+) <sup>a</sup>			

SOURCE: Venture Financial Statements (see appendix D, tables 23 and 24 for supporting data).

<sup>a</sup>Forecast for next fiscal year.

3. The past and projected performance of OVC and Phoenix remain relatively unchanged. This is due to their relatively less reliance on government contributions to operating and other expenses.

4. Most of the funds provided by the government to defray expenses are in the form of manpower training funds and are applied against labor costs. This probably leads to some intentional inefficiency in the use of labor even to the



extent of creating essentially unnecessary jobs. The effect of this probability is not quantifiable with information available. However, its presence is acknowledged.

In summary, the entrepreneurial firm relies much less on government funding and may still produce a profit as demonstrated by OVC's past performance and OVC's and Phoenix's projections for the next fiscal year.

The conclusion which can be drawn is that the presence of the entrepreneur and entrepreneurial capital cannot guarantee profitability, but the absence of non-governmental financing seems to indicate unprofitability. At the end of four years, all four community resource rationalization ventures are still unprofitable under the second definition used. Should government funding terminate, venture survival would most certainly be in question.

Under the second definition presented above, only two ventures have achieved break-even status.<sup>1</sup> Therefore, no conclusions can be drawn as to the relative time to break even.

The second subsidiary question must receive a qualified answer. The mere presence of an entrepreneur will not mean profitability. However, the entrepreneur relies less on government funding than do the other firms.

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<sup>1</sup>Break-even is defined as four consecutive quarters of net profitability. Not all quarters require profits, but the net of the four when combined must indicate profitability.





Greater government funding replaces other-source funding in the community resource rationalization ventures. The absence of government contribution to operating and other expenses would result in negative profits for these four firms while not affecting greatly the performance of the entrepreneurial firms. The answer to the second subsidiary question must be a qualified yes.

### Third Subsidiary Question

Are there differences in the cost to the government per job created?

#### Performance measurement

The measurement of cost per job created raises some definitional and procedural difficulties. Different bases have been used in Special Impact Program studies to determine that cost. For example, the Job Start Corporation has used the total JSC administrative and investment expenditures as the cost. The job total used was the highest total number of employees for the year. This disregarded any fluctuation in levels of employment and ignored other government contributions to the ventures. The previously mentioned Abt Associations evaluation of the Special Impact Program<sup>1</sup> used total cost to the government, including both SIP and non-SIP funds. This evaluation report then used "maximum jobs" as the denominator, referring to the total number of

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<sup>1</sup>See above, pp. 88-90.



jobs created over time by the venture without regard to whether the jobs continued to exist. Computations by JSC produced an average cost for the combined efforts of the CDC and not for individual ventures. The Abt Associates report aggregated costs only by groups of CDCs, rural and urban, and not for individual CDCs or ventures. Neither of these procedures or definitions seem to serve adequately the needs of the present study in assessing job-creating costs to the government.

Three measures are offered here. The first relates the Total Cost to the Government over the life of the venture to the Average Number of Jobs Created over the life of the venture. This measure suffers from fluctuation in employment levels which have been experienced by five of the six ventures studied.

The second measure simply relates the Cumulative Total Cost to the Government to the Average Annual Employment. Fluctuation in employment tends to distort real costs, but if average annual employment does decline as government investment increases or remains steady, then the efficiency of the venture in creating permanent jobs may be questioned.

A third measure generates cost per man-year instead of cost per job. It is computed by relating the Cumulative Total Cost to the Government to the Cumulative Average Annual Employment. This measure presents a truer picture of



employment costs borne through government investment and subsidy.

Measures of the types described above tend simultaneously to overstate and understate the actual costs to the government. Costs are overstated because, if employees were previously unemployed, they now represent reduced drain in terms of transfer payments and are also a probable source of new tax revenue. Costs are understated because it is most difficult to isolate and identify all government subsidy due to the variety of government programs available.

Data, analysis,  
and conclusions

Table 19 provides the cost-per-job-created comparison under the first definition above.

TABLE 19

COST TO THE GOVERNMENT PER JOB CREATED:  
TOTAL COST TO GOVERNMENT OVER LIFE OF  
THE VENTURE DIVIDED BY AVERAGE NUMBER  
OF JOBS OVER LIFE OF THE VENTURE

Venture	Cost per Job Created
Possum Trot	\$13,776
Lawson	9,456
GEMCO	10,555
BCC	19,307
OVC	5,022
Phoenix	5,405

SOURCE: Venture Financial Statements  
(see appendix D, tables 25 and 27 for sup-  
porting data).



Table 19 (page 169) seems to indicate that the entrepreneurial firms are more efficient in producing jobs than are the other firms. However, this is again related to the fact that substantially greater levels of government funding have been provided to the community resource rationalization ventures. Another important factor, inherent differences in capital-labor intensive characteristics, may be overridden by the magnitude of relative differences in government funding.

It is probable that contractual agreements leading to additional government investment in entrepreneurial ventures will require a similar increase in entrepreneurial investment. Similar matching fund requirements are not present in community resource rationalization ventures, which will result in perpetuating any differences that now exist.

Table 20 provides a second comparison of cost to the government per job created.

Both the absolute costs to the government and the trends are of interest here. Possum Trot costs declined initially and rose sharply in its fourth year. Lawson costs have risen steadily. Unless the government investment or contribution to expenses increases for the two entrepreneurial ventures, their costs will decline. Rising average costs are indicative of declining employment or increasing





government subsidy, or both. In either event, the trends which are rising are cause for concern and are indicative of lessening efficiency in providing jobs.

TABLE 20

COST TO THE GOVERNMENT PER JOB CREATED: CUMULATIVE  
TOTAL COST TO THE GOVERNMENT DIVIDED BY  
AVERAGE ANNUAL EMPLOYMENT

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	\$ 9,878	\$ 9,327	\$9,290	\$14,143
Lawson	2,671	3,050	4,026	5,009
GEMCO	8,433	12,962	7,193	6,292
BCC	10,163	18,061		
OVC	5,512	4,529		
Phoenix	5,405			

SOURCE: Venture Financial Statements (see appendix D, tables 25 and 27 for supporting data).

Table 21 provides a third comparison, the cost to the government for one man-year.

Again, variations are related to the differences in levels of government funding received by the two groups of ventures. Man-year costs generally can be expected to decline as the venture ages unless the venture requires an influx of funds without a corresponding increase in employment levels. The decline in man-year costs will be greater for the ventures with the lowest level of continuing government



funding. Therefore, it is probable that man-year costs to the government will be less for entrepreneurial ventures.

TABLE 21

COST TO GOVERNMENT FOR ONE MAN-YEAR: CUMULATIVE  
TOTAL COST TO GOVERNMENT DIVIDED BY  
CUMULATIVE AVERAGE ANNUAL EMPLOYMENT

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	\$ 9,878	\$6,139	\$4,263	\$3,444
Lawson	2,671	1,785	2,431	2,364
GEMCO	8,433	6,690	4,096	2,639
BCC	10,163	9,653		
OVC	5,512	2,511		
Phoenix	5,405			

SOURCE: Venture Financial Statements (see appendix D, tables 25 and 27 for supporting data).

The data in these three tables (19, 20, and 21) appear to support an affirmative answer to the third subsidiary question: differences do exist in the cost to the government per job created. The major reservation, relating to inherent industry differences, appears to be overcome by the magnitude of the difference.

#### Fourth Subsidiary Question

Are there differences in direct community economic benefits per dollar of government funding received?



Performance measurement

Community economic benefits in this instance are defined as total payroll, including the cost of fringe benefits. This is only the first step in determining the total impact of economic activity on a community. Subsequent efforts would include investigation of the "ripple" effect of new business and new expenditure; that is, the multiplier effects which follow initial economic activity.

The measure used here is cost to the government for one payroll dollar created. It is closely related to the cost per job measurement presented above. The calculation is made by relating Cumulative Total Cost to the Government to Cumulative Annual Payroll.

Data, analysis,  
and conclusion

Table 22 provides the basis for comparison.

The results indicated in the table are similar to those presented for cost per job created. As the relative government investment and expenditure declines more rapidly in the entrepreneurial venture, the cost to the government per payroll dollar generated will also decline more rapidly in those ventures.

The conclusion to the fourth subsidiary question rests also on the continuing differences in levels of government funding. It must be answered affirmatively:



differences do exist in the direct economic benefits as compared to government funding received.

TABLE 22

COST TO GOVERNMENT FOR ONE PAYROLL DOLLAR: CUMULATIVE  
TOTAL COST TO GOVERNMENT DIVIDED BY CUMULATIVE  
ANNUAL PAYROLL

	Fiscal Year of Venture Operation			
	1	2	3	4
Possum Trot	\$3.549	\$2.147	\$1.354	\$0.958
Lawson	0.835	0.564	0.722	0.665
GEMCO	1.451	1.054	0.716	0.467
BCC	1.608	1.390		
OVC	1.300	0.532		
Phoenix	1.546			

SOURCE: Venture Financial Statements (see appendix D, tables 25 and 27 for supporting data).

### The Primary Question

Are there differences in the economic performance of rural Community Development Corporation manufacturing ventures established through the entrepreneurial search approach and those established under the community resource rationalization approach?

### Measurement

The measures applied to the subsidiary questions included leverage, return on investment, cost to the government per job created, cost to the government per man-year created, and cost to the government per payroll dollar





generated. Analyses of differences found through these measures have been presented qualitatively without attempt to establish precise valuations of those differences.

### Conclusion

The major threads which link all of the attempts to determine performance or strategy are the relative differences in government funding, both in capital investment and continuing subsidy, and the related requirement of entrepreneurial investment in entrepreneurial ventures.

The entrepreneurial ventures rely to a relatively less extent on government funding and to a relatively greater extent on other sources. The success of entrepreneurs in attracting other source funds may lie partly in the fact that they have some personal investment, superior management capability as perceived by funding sources, or a profitable business record, or in the conscious decision by community resource rationalization ventures to limit outside control and influence through limiting outside investment.

Whatever the reason, the result is extensive reliance on government support by community resource rationalization ventures. These ventures may now find attracting other funding most difficult because of poor business performance, with questionable survival in the event of termination of government support. Funding from other than government sources does not guarantee success



but its absence may render venture survival most difficult in such a situation.

Differences in ROI, cost to the government in terms of jobs, man-years, and payroll dollars created have all been qualitatively discussed and established. All are related to and exaggerated by the differences in government funding levels. The answer to the primary question is in the affirmative.



## CHAPTER VII

### GENERAL CONCLUSIONS

#### Introduction

Earlier chapters have outlined both procedural and philosophical variations noted in the practice of community development. Business ventures are the primary tools of the community development corporation through which it achieves community economic development. Two specific approaches to the establishment of business ventures have been identified. Each approach rests on a different concept of community control. Both approaches have identical overall goals: the creation of "appreciable impact" in solving urban and rural community problems. Specific goals include arresting tendencies toward dependency, chronic unemployment, and community deterioration. Of equal importance is the legislative objective that benefits thus achieved should be permanent and should survive the termination of government financial support. Finally, the stated policy of the OED is that ventures should maximize profits in the short term. By implication, the institution-building functions of the community development program should be fulfilled by the CDC.



The final chapter briefly summarizes the objectives of the research, restates the research question, and presents conclusions relative to the research questions and achievement of the objectives. This is followed by a brief discussion of the value and usefulness of the research results and suggestions for further study.

### Objectives

The basic objectives of the research were to determine whether performance differences exist between CDC ventures established through entrepreneurial search and community resource rationalization, to identify the differences, and to determine whether they affect the future viability of the venture and its potential for delivering permanent benefits to the community. The objectives include the assignment of an ordinal valuation to the differences and not the determination of interval or ratio valuation. The investigation was limited in two ways. First, it was limited to rural CDCs and, second, to manufacturing ventures of those rural CDCs. The latter limitation reflects the fact that the highest priority need of rural areas as perceived by rural residents is jobs. The second limitation also reflects the fact that the preponderance of rural CDC ventures is devoted to manufacturing activities.





### Research Question

To achieve the objectives of the study, the following research question was formulated:

Are there differences in the economic performance of rural Community Development Corporation manufacturing ventures established through the entrepreneurial search approach and those established under the community resource rationalization approach?

### Conclusions

The research in support of the answer to the primary question was organized around four subsidiary questions designed to identify differences in performance of six firms established under the two approaches.

A basic difference was found in that less reliance was placed on the government as a source of funding by the entrepreneurial firms, both for capital investment and operating expenses. The firms established through community resource rationalization were either unable or did not desire to leverage government funds to any great extent. A reason for not desiring to rely on outside sources of funding could have been the reluctance to dilute community control over such ventures, a situation which might arise through conditions accompanying such financing.

A second difference was found in return on investment. The community resource rationalization firms were found to rely on government funding to defray operating expenses



to a larger extent. This factor contributed to the Net Profit Before Taxes in the amount of the government subsidy. When the government contribution to operating expenses was deducted from the Net Income Before Taxes, the resultant showed negative profit for the community resource rationalization firms. Little effect was noted in the profit position of the entrepreneurial search firms because of less reliance on government funding.

A third difference related to the efficiency of the firm in creating jobs. The entrepreneurial search ventures were found to create jobs at a lower cost to the government, again because of less dependence on government funding.

Similar results were found in the relative cost to the government per dollar of payroll generated. The reason is also related to the greater reliance placed on government funding by community resource rationalization ventures.

The overall results indicate that differences exist between the two sets of firms; that without continued government funding, the community resource rationalization ventures in the study would find survival difficult; that results place the contribution of community resource rationalization ventures to permanent community benefits in doubt, at least in the event of the termination of government contribution to their expenses; that entrepreneurial



search ventures have developed other than government funding sources including, and perhaps based upon, the personal investment of the entrepreneur; and that the entrepreneurial search venture shows substantially better viability potential in the event of government funding termination. Therefore, it appears that support of entrepreneurial search should be continued and perhaps even expanded, but not terminated.

#### Value of the Study

The study is considered of value in at least two areas. As indicated earlier, OED has tentatively decided to reduce funding in support of the INED entrepreneurial search efforts on behalf of CDCs. The reduction will be by one-half in fiscal year 1976, and funding support will be eliminated completely in fiscal year 1977. If CDCs elect to use the INED services, the CDC must pay for them. This is ostensibly based on the OED desire to leave policy and operating decisions at the CDC or local level.

It seems reasonable to assume that the CDC will respond more directly to local pressures and objectives in the absence of OED's financial and policy support of entrepreneurial search programs. The result may well be that the approach will not be used except by those CDCs which have had positive experiences with it in the past. At the least, use of the approach will be slower to spread to other CDCs. The CDCs will continue to emphasize local



control of developmental efforts and may not take advantage of an excellent approach to venture establishment.

The results of the study may provide the OED with a basis for reconsideration of the entrepreneurial search funding decision. Alternatively, publication to the CDCs, the Center for Community Economic Development, and the National Congress for Community Economic Development may persuade CDCs of the merits of the entrepreneurial approach to venture establishment.

The second area to which the study contributes is that of the community development theoretical framework. It has been demonstrated that superior economic performance can be obtained through the use of entrepreneurial search and entrepreneurial ventures. This has been accompanied by some dilution of local control. But the control relinquished has been over the management and operation of the venture and not over its goals, objectives, and commitment to the community. The interests of the local community can be protected through a carefully formulated contractual agreement between the entrepreneur and the CDC. All of the benefits of economic development which accompany venture establishment and operation can be accrued without coping with operational problems which require the services of well-qualified personnel and divert the CDC staff from its primary role of community institution building. The





ability to maintain local control over economic development, improve economic performance, and still accept a minority position in the venture is important to the theory of community economic development.

### Suggested Additional Research

#### Development of Measurement Criteria

Perhaps the most obvious need in the area of community development is agreement on what to measure and how to measure it. Economic performance and progress can be measured through the use of fairly well-accepted criteria and procedures. However, there is disagreement on whether economic factors are important to measure in a poverty program. Progress toward social or political goals is much more complex and difficult to measure. A costly, major study of the Special Impact Program has been severely criticized because of the inability to gain prior agreement on the basic definitions, goals of the program, and indicators of progress toward the goals. Regarding the Special Impact Program specifically, there is little agreement on a definition of "appreciable impact" and what it means in reducing unemployment, community deterioration, and tendencies toward chronic dependency. There is little agreement on what "maximum feasible local participation" and "local control" mean in regard to the Special Impact Program.



But there is resistance to studies which try to evaluate or define these elusive concepts. A continuation of the present inability to evaluate the Special Impact Program or to define its goals and develop measurement standards could result at best in externally imposed definitions, measurement criteria, and evaluations or, at worst, in termination of the program by an exasperated political body.

#### Costs and Benefits of Government Investment

Both of the CDC executive directors indicated their unwillingness to continue the operation of an unprofitable venture except possibly in the short term. The reasons given included the resulting inability to attract outside funding for a venture with a poor profit performance record and the undesirability of creating the impression that the venture was just another government-subsidized program.

It would appear that an excellent case could be put forth for continuing to operate ventures at a loss over an extended period of time. Such a decision would have to be based on a conclusion that the costs of maintaining a subsidized business with a given level of employment are less than maintaining a similar number of community persons through transfer payments. The approach to such a study would presumably use cost-benefit techniques to identify all the elements of the program. Net government outlays,



training benefits, increased value of fixed assets, and individual and community pride are among the many factors to be considered.

Approval of this concept of subsidization of ventures would require a long-range commitment of government funding, which may be beyond the ability of Congress to ensure. However, it is possible that the net benefits of the program would outweigh the net costs.

#### OED-CDC Relationships

The question of CDC autonomy in its relationship with OED is one that goes beyond the normal friction induced by bureaucratic procedures and tendencies. There is little question that OED must retain some control over the CDC and its expenditure of government funds. But there is also little question that the CDC needs a certain degree of autonomy in its operations.

Perhaps the most frustrating part of the venture history as it has been researched for this study is in regard to the establishment of new ventures. In specific instances, venture startup has been delayed to the point where one venture missed seasonal markets almost completely and a second would have missed a seasonal market had startup not been accomplished without OED approval of CDC investment.



The OED policy strongly discourages expansion of CDCs outside the impact area. The reasons for this, relating to local control and local impact, are generally sound. However, where the proposal concerns a normal expansion of impact area venture activity, then the case against such expansion is not so compelling. The tendency is to treat all decisions regarding CDCs within a common set of gradations. It seems important that this normal tendency of the bureaucracy be overcome.

A study of OED-CDC relationships might set up classes of CDCs by age, size, demonstrated performance, and management quality or capability with the purpose of allowing autonomy to increase as the CDC negotiates certain mutually agreed stages of development or demonstrates certain capabilities.

A related study might inquire into the relative emphasis placed on social, political, and economic goals within OED. During the present research, much internal conflict over the priority of goals was found within the agency, detracting substantially from the business acumen or economic emphasis represented. Perhaps a reexamination of the Bureau of the Budget study is needed. The study concluded that the social orientation of OEO personnel should prevail over their business orientation. A recasting of the study in the light of present OED policy and CDC requirements might be in order.





### Performance Data

An area related to the methodology of the present study but not specifically to the Special Impact Program concerns the availability of performance data of firms in various lines of activity. Highly aggregated data are compiled by Dun and Bradstreet and by Robert Morris Associates, as well as by trade associations. All of the trade associations representing the lines of activity of the six firms in the present study were contacted for data relating to the first five years' operations of new firms. The Securities and Exchange Commission, the Federal Trade Commission, the Small Business Administration, and the Department of Commerce were also contacted in an effort to locate such data. All sources responded that available information was not aggregated in such a manner that data on firms by age could be extracted. The data have little applicability to feasibility studies for new businesses unless they represent the experience of the first few years of activity.

The development of procedures to extract such data should be of great interest to the Small Business Administration, OED, and venture capitalists.

### Infrastructure Development

A final suggested study would examine the extent to which anti-poverty agencies, including the OEO, the Economic



Development Administration, and others, contribute to the creation of a positive business environment. Of particular interest are the development of manpower, labor skills, transportation, industrial sites, and other elements of the community infrastructure. These elements are of critical importance to the success of community resource rationalization. Their presence or absence contributes directly to the attractiveness of outside investment, which is essential to the long-range development potential of the community.

#### Concluding Comment

Efforts to evaluate the Special Impact Program, as represented by the present study, are important to the continuation of the program. Of paramount importance are the definition of program goals and agreement on how achievement is to be measured. This is not too much to ask of a program that has been in existence for eight years.



## APPENDIX A

### POLICY STATEMENT ON SPECIAL IMPACT PROGRAM

SOURCE: U.S., Office of Economic Development,  
Washington, D.C., October 22, 1974.



## OFFICE OF ECONOMIC DEVELOPMENT

### Policy Statement on Special Impact Program

#### I. INTRODUCTION

The Special Impact Program is a national program, with certain specified goals and objectives established by statute and with certain criteria against which program performance is to be measured. While the legislation does not specify a rigid program model, the Special Impact Program is essentially a demonstration program, in that it provides for "special programs of assistance" to specific kinds of organizations (i.e., CDCs and related cooperatives), subject to the limitation of their being of "sufficient size, scope and duration to have an appreciable impact," thereby clearly limiting their number. Unlike the Community Action Program, where some 950 agencies are funded nationwide to undertake an almost unlimited range of anti-poverty projects, determined by "local initiative," the Special Impact Program focuses only on a limited number of organizations and on the community economic development approach to the elimination of poverty.

Continued designation of the Special Impact Program as a demonstration program will not prevent vigorous pursuit of additional resources to enlarge and strengthen its impact throughout the country. It will, instead, ensure greater flexibility in the structure and goals of each CDC; allow expansion of the program at a rational pace; reduce public expectation of immediate solutions to long-standing problems; and result in strengthening the concept of community economic development as a mechanism for providing access to economic and social opportunities and advantages.

Given the demonstration aspect of the Special Impact Program, it is essential that the Office of Economic Development provide policy direction to the CDC beyond the technical responsibility of any grant-making Federal agency to insure that funds are properly and legally administered. This direction shall consist primarily of establishing overall program objectives and evaluation criteria, and of determining relative priorities among such objectives. In exercising its policy direction responsibilities, however, OED will provide maximum opportunities for CDCs to participate in the





policy development process and to review and comment upon OED proposed policies prior to their being promulgated in final form.

While the Title VII legislation mandates a policy direction role for OED, it also mandates that economic development be pursued through community based corporations, responsive to the residents of the impact area served, which furthers the efforts of the poor to participate more effectively in community life, both social and economic. Accordingly, within the broad policy parameters set down by OED in compliance with the legislation, each CDC must be accorded maximum possible autonomy. This means that, consistent with OED policies and priorities, the CDC shall be free to develop a local strategy suited to local needs and conditions for community economic development, including the freedom to request exceptions to OED policies where the CDC can demonstrate that such policies conflict with the particular needs of the impact area. This also means that, subject to the agreements negotiated with OED during the funding (or refunding) process, as represented by the approved budget and work program, the CDC shall be free to manage its program over the course of the grant period without interference in its day-to-day operations and without changes in the operating ground rules or conditions governing the grant, unless agreed to by the CDC. Finally, this means that, to the extent permitted by statutory limitations, grant conditions, and OED procedures regulating the release of venture capital funds, the CDC shall be free to control the resources committed to it, including the re-allocation of resources as needed to meet changing conditions and program requirements.

## II. PROGRAM POLICIES AND PRIORITIES

A. Appreciable Impact. Special impact areas face severe shortages of income, jobs, skilled human resources and, perhaps more important, viable institutions responsive to the needs of impact area residents and capable of meeting the staggering challenges posed by impact area problems.

The ultimate goal of the Special Impact Program is, of course, to achieve parity between the impact areas and the areas surrounding them, to correct the tremendous imbalance in institutional capacity, income, jobs and human resources. It is clear, however, that this kind of parity cannot be attained in anything like the short term, by the Special Impact Program or by any other community economic development effort now on the horizon.



Moreover, the legislative objective of "appreciable impact" should not be equated with this ultimate goal. Appreciable impact, in statutory terms, is to be directed toward "arresting tendencies toward dependency, chronic unemployment and community deterioration" (emphasis added). In other words, appreciable impact will occur not when parity has been achieved--that is, not when the ultimate goal of eliminating poverty is attained--but when current economic, social and institutional trends have been reversed--at that point when the continued downward spiral of deterioration has been halted and the long, upward climb begun.

Appreciable impact will thus be measured by a variety of indicators with respect to characteristic "tendencies" that have been "arrested"; by a net inflow, rather than outflow, of jobs and income into the impact area; by the establishment of profitable ventures and property developments which will attract private capital into the impact area; by the increase in skilled managers and workers in the impact area; and by reductions in unemployment and public assistance rolls.

These indicators should not normally be expected to occur simultaneously, since some are essentially preconditions to others. Thus, a stable, viable CDC itself, measured by the presence of active, representative boards, competent, responsive staff, and broad-based support in and ties to the impact area, is an initial indicator that progress toward appreciable impact is being made.

Secondly, successful venture and property developments which give the CDC and its efforts visibility and credibility are subsequent indicators. This should be followed by increases in private capital investment, based on the CDC's own initial successes. Only when these indicators are present should measurable impacts on employment, income, and public assistance dependency of the program's primary beneficiaries be anticipated.

B. Self-Sufficiency. Title VII requires that CDC programs continue to have appreciable impact after the termination of Title VII assistance. This is, of course, inherent in the definition of appreciable impact; since if an impact is appreciable only when it reverses economic and social deterioration it must also be permanent and self-perpetuating.

This leads to the question of whether a CDC must thus become self-sufficient to meet the legislative requirement of





an appreciable and continuing impact. To answer this question, a distinction must first be made between self-sufficiency of individual CDC ventures and self-sufficiency of the CDC itself. A venture is self-sufficient when it can generate sufficient income without further subsidy to cover its costs (i.e., break even) or clear a profit (i.e., permit reinvestment for further expansion). On the other hand, while individual ventures may be self-sufficient, they may not be generating sufficient profits to finance the administrative costs of catalytic institutions, such as the CDC itself, or social programs operated or sponsored by the CDC. In this sense, the CDC is not self-sufficient even though its ventures may be. Were subsidization of the CDC administrative or non-venture program costs to terminate, the CDC as an institution would also terminate or have to cut back on its operations, even though individual ventures could continue to operate successfully and be self-sustaining.

However, the failure of a CDC to attain self-sufficiency does not preclude the attainment of an appreciable and continuing impact after termination of Title VII funding. It is quite possible that, while all ventures may not together be generating sufficient profits to cover all CDC costs, the CDC may still have effected permanent change in the impact area and such change may still continue in the absence of the CDC. Appreciable impact and self-sufficiency are not, therefore synonymous; one can occur without the other.

Business ventures (that is, ventures where either maximum or optimal profits are the objective, as opposed to social ventures; see Section D below) can and should be expected to attain self-sufficiency over the short term. While some refinancing will be required over the next few years for CDC business ventures, since refinancing is generally required by any growing business, it is expected that after this period CDC business ventures will have passed the break-even point and profits will be adequate to meet most growth needs. While self-sufficiency of business ventures is therefore a short term objective of the Special Impact Program, it is neither possible nor particularly desirable for CDCs themselves to attain self-sufficiency over the short term.

To begin with, it is highly unrealistic to expect even self-sustaining business ventures to generate sufficient profits to cover CDC administrative and non-venture program costs in the foreseeable future. Even if the scale of venture investment were markedly increased, it is unlikely that this situation would change. This would be the case, moreover,



even if the ventures were operating in conditions more favorable than those which prevail in the impact areas.

But more important, just as appreciable impact can occur without the CDC first becoming self-sustaining, so can CDC self-sufficiency be achieved without appreciable impact. In fact, a misplaced emphasis on CDC self-sufficiency may postpone, if not defeat, the objective of achieving appreciable impact. Reduction of CDC administrative costs or retraction of CDC non-venture social program efforts may be the necessary price for achieving self-sufficiency at a stage where such reductions in efforts may be highly undesirable. Similarly, premature use of venture profits to underwrite CDC administrative costs rather than for reinvestment for further venture expansion may seriously slow the forward momentum of the CDCs' economic development program.

Moreover, since the objectives of the Special Impact Program are not solely economic, CDCs must also be able to invest in social programs which will require a continuing subsidy, at least over the short term, and possibly indefinitely. The source of the subsidy need not and should not, however, be solely Title VII funds. In this regard, the CDCs should seek, with OED assistance, financial support from other Federal agencies, from state and local government, and from private sources.

While ultimately it is anticipated that CDC self-sufficiency will become possible through a combination of venture profits and non-Title VII subsidization, it is in the long-run interests of the Special Impact Program to continue OED support of the CDC's administrative and non-venture program costs for as long as possible so as to maximize the continuing catalytic institutional effects produced by CDC activity and so as to promote the earliest possible attainment of appreciable impact.

The goal of CDC self-sufficiency must be considered a long-range goal if it is an appropriate goal at all. Certainly much more Federal money will need to be received for strengthening and expanding the program before "appreciable impact" can be reached. Consideration should be given to the possibility that the CDC program is a proper subject for continued Federal subsidization, along with other traditional American subsidization, such as oil, ship-building and transportation.





C. Institution-Building. One of the fundamental differences between impact areas and the surrounding communities is the lack in the impact areas of viable, responsive institutions capable of addressing the variety of economic and social problems facing impact area residents. Coupled with the institutional poverty within the impact area is the total unresponsiveness of outside institutions. Thus, one of the primary objectives of the Special Impact Program is the creation of new institutions and a change in the attitude and behavior of existing institutions.

A wide range of institutions are needed, including planning and coordinating institutions, capital-providing and debt-providing institutions, employment-generating and wage-increasing institutions. The key institution in this institution-building thrust is, of course, the CDC itself. The CDC not only directly plays all these roles (planning, capital-providing, etc.) but is the central catalytic force that in turn creates, or promotes increased responsiveness of, other institutions which perform one or more of these crucial functions.

The CDC's institution-building role is the primary experimental feature of the Special Impact Program. The CDC is a community-based, representative planning institution which must undertake even more coordinated planning of impact area economic activity in the future. Until now, it has been the major source of equity and debt capital in the impact areas, and will continue to be in the short term, although its role in the long term should shift to stimulation of capital and debt provision from other institutions, primarily from sources outside the impact area. It has, directly or through its ventures, been a source of employment, but over the short term it cannot be anticipated to make a significant impact on employment. Finally, the CDC has also been a subsidization institution, in that it has made official guarantee programs relevant and available to the impact areas.

The institution-building objective of the Special Impact Program is, and will remain, the top priority. It is the area where CDCs have already made the greatest impacts and where in the short term OED expects the greatest degree of achievement. Since institution-building is a pre-condition for all other objectives of the Special Impact Program, CDC failures in this area spell failure for other longer-term objectives as well.



D. Venture Profitability. There are four basic categories of CDC ventures: (1) true business ventures organized for profit, including wholly owned CDC ventures and ventures in which the CDC has either a majority or minority equity position; (2) loan funds, loan guarantee funds, and consumer credit unions, where little or no profit is intended, but where loan funds may be used by individual recipients for profit-connected business purposes; (3) infrastructure development, including those overhead investments such as water and sewer systems, roads, land improvements, etc., which are not themselves profitable but which are essential preconditions for the development of other profitable ventures; and (4) social "ventures," which are not ventures at all, but rather service programs and other community development activities, such as day care centers, manpower training, health services, etc., which are supportive of the CDC's overall community economic development efforts.

Business ventures, which are profit-making in purpose, loan funds, which are essentially break-even activities, and infrastructure development which can usually only at best be profitable in the long run are all budgeted under the Investment Capital cost category. Social ventures, which will generally be expected to require a continued subsidy, whether from Title VII or other sources, are budgeted under the other cost categories, as appropriate, along with other CDC administrative costs.

True business ventures fall, in turn, into two sub-categories: ventures whose objective is to maximize profits; and ventures whose objective is to optimize profits, given simultaneous social objectives whose pursuit requires the trade-off of some profits. Where optimization of profits, rather than maximization is the objective of a business venture, the CDC must so indicate, prior to investment of the venture funds, in its funding application and venture plans, and OED must specifically approve such an approach. In identifying optimization objectives, the CDC must specify the social benefits for which profits are being traded off and must specify the degree to which optimization is expected to reduce profits below what they would have been if profit maximization had been opted for.

Although it is appropriate for a given CDC to have a mix of venture types, the priority over the short term should be on business ventures. Moreover, among business ventures, the priority over the short term should be on profit maximization, rather than optimization.



It is not a logical necessity that maximizing profits will ensure institutionalization of the CDC program. One of the most attractive aspects of the program, as far as the private sector is concerned, is that CDCs attempt to make a profit while serving larger social goals. Therefore, optimization should be the goal over the long term.

Whether ventures are for maximum or optimum profits, for no profits, or for non-business purposes requiring a continued subsidy, the specific objectives must be spelled out prior to venture approval, and will constitute the criteria against which venture performance will be measured. Where a venture includes both business and social objectives, performance will be measured against both sets of objectives. Qualified management for business ventures, of course, is essential.

E. Employment. While the employment of low-income and unemployed impact area residents and increased income for impact area residents are among the most important long-range objectives of the Special Impact Program, it is not anticipated that any CDC can make a significant impact over the short term in this area. Moreover, undue emphasis however well-intentioned, on employment in the early stages of a CDC's efforts can have a detrimental impact on its initial success with business ventures and hence its ultimate success.

All things being equal, ventures with a greater employment potential should be given higher priority than those with smaller employment potential, but in the short term job creation should not be pursued as an objective at the sacrifice of venture profits (unless, as noted in Section D above, the costs can be subsidized by non-Title VII funds). The CDC's long-term employment objectives can be better served by concentrating in the short term on increasing venture profits so as to solidify the CDC's institutional standing and so as to attract outside capital for new ventures or venture expansion, than by emphasizing jobs at the risk of producing marginal ventures and an image of failure for the CDC. Even with a heavy emphasis on jobs, a CDC at best can have only a marginal impact on impact area unemployment during the early years of its program. Substantial inroads on unemployment cannot be expected until after a solid base of CDC and joint CDC/private ventures has been laid.

CDC performance in the employment area cannot be effectively measured during the early years of the Special Impact





Program. Rather than a linear expansion of employment in roughly equal increments over time, fairly negligible increases should be anticipated over the course of the first three or four years, followed by substantial spurts in subsequent years. Not until heavy expansion and reinvestment of profits from early ventures will dividends, in the form of reduced unemployment and increased personal income, be paid.

There shall be renewed commitment on the part of OED to facilitate increased manpower training for non-managerial positions in the venture programs. This might be directly by OED, or OED will play a leadership role in seeking assistance from appropriate Federal agencies (such as DOL, USDA, BIA, Commerce, etc.) to provide specialized training when such assistance is necessary for the success of a venture.

F. Human Development. While human development objectives are essential to increased incomes and improved quality of life, misplaced emphasis at the early stages of a CDC's efforts may, in the absence of specific subsidies for that purpose, detract from venture performance and threaten the institution-building priorities of the CDC. Investment in training of venture managers, rather than the recruitment of expert managers, has been a major cause of CDC venture loss to date.

Human development within the CDC itself, as opposed to its business ventures, is, however, a high priority over the short term. In this instance, human development is essential to the central objective of institution-building, in that it is often the only way to ensure that the development effort will be directed from within the impact area by a planning institution--the CDC--responsive to the community. The development of skills of CDC managers, as opposed to venture managers, is, therefore, fully consistent with OED priorities, over the short run, where fully expert managers for the CDC are not available in the impact area.

G. Beneficiaries. The primary beneficiaries of the Special Impact Program are the low-income residents of the impact area. The overall long-range objectives of the program are therefore directed toward improving the employment, incomes, environment, living conditions, and participation in community life of these residents. In order to produce benefits for low-income impact area residents, however, the institution-building and venture development efforts of the CDC require the participation of the non-poor in managerial and leadership roles. In the sense that the CDC and its





ventures provide employment and human development opportunities for other residents, and, perforce, non-residents, these individuals also become "beneficiaries" of the program. Nevertheless, such "beneficiaries" are primarily means toward the ends of the program, who must be present for ultimate program success, but who in themselves do not constitute a final measure of success. Generally, the OEO poverty guidelines will be used as a basis for determining whether a resident is low-income although each CDC is free, subject to OED approval, to employ other guidelines where it can demonstrate that local circumstances justify a modified standard.

The boundaries of the impact areas should be subject to change as social and economic conditions of the community dictate. The boundaries should be explicitly defined at the beginning of each grant period. All monies of a particular grant period should be used within the defined impact area except when specifically approved by OED upon demonstration by the CDC that investment outside the impact area would produce direct and substantial benefits to the residents of the area.

Where a CDC or its ventures provide non-managerial or non-professional employment opportunities, such opportunities should be restricted to residents of the impact area. Similarly, all social service and other non-venture benefits of a CDC should be restricted insofar as feasible to impact area residents. Preference for all such employment and services should go to low-income rather than middle-income residents.

Wherever possible, managerial and professional positions in the CDC and its ventures should be filled by residents of the impact area; and when non-residents are recruited, they should be encouraged to relocate to the impact area. In the case of venture managers, however, experience and training are crucial. Accordingly, unqualified residents should never be hired for these positions instead of qualified and experienced non-residents. In most cases, the CDC will have to recruit from outside the impact area to find proper managers for its ventures. In the case of the CDC itself, ties to the community are more relevant to the success of the program. Accordingly, it may be more appropriate when recruiting CDC managers to compromise on the specific qualifications--provided, of course, deficiencies can be corrected by on-the-job training--in order to hire residents who understand and have credibility in the impact area. Even in recruiting CDC managers, however, it may be necessary to reach out beyond



the community to find individuals with the necessary skills and potential essential to CDC success.

/s/

Louis Ramirez  
Associate Director  
Office of Economic Development



## APPENDIX B

### JSC GROWTH AND DEVELOPMENT



## JSC GROWTH AND DEVELOPMENT

For purposes of tracing the evolution of JSC activity, figures 7, 8, and 9 are provided. Figure 7 indicates the level of activity at the time of JSC incorporation. Sources of other than OEO assistance are arrayed along the right side. All but the Edna Clark Foundation grant of \$50,000 and the entrepreneurial investment are either government or bank resources.

Figures 8 and 9 summarize organizational changes and growth in JSC enterprises. Other enterprises include the following:

Hill Country Hickory House Restaurant. This enterprise is operated by the Knox County Community Development Corporation (KCCDC). JSC has provided \$60,900 in grants to the KCCDC for its development and operation.

Arts and Crafts Store. Operated as an adjunct to the restaurant by KCCDC, this store provides a sales outlet for craft products fabricated by local community residents. No investment is recorded by JSC.

Frakes Feeder Cooperative. This enterprise has provided an opportunity for pig farmers to realize lower costs in their operations. JSC has invested a total of \$47,000.





• Other Resources:

SBA
Banks
Entrepreneurs
INED
Clark Foundation

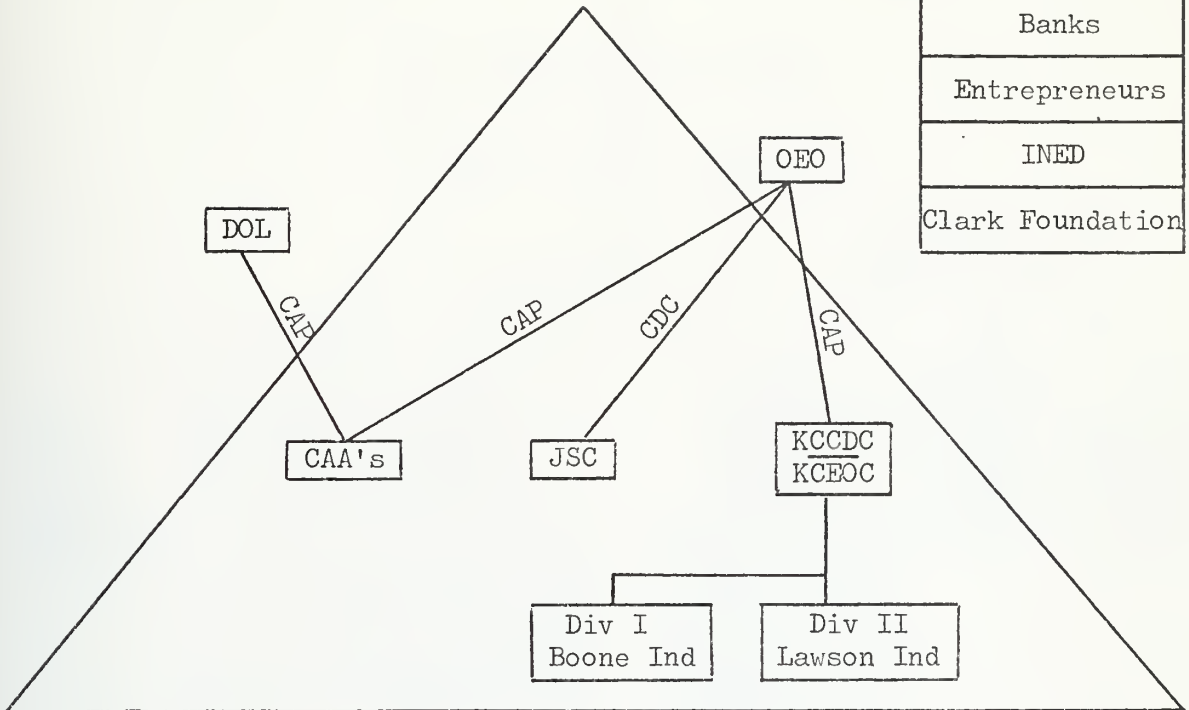


Fig. 7. Anti-Poverty Organizations in JSC Impact Area  
October 1969

Key:

CAP -- Community Action Program Funding

CDC -- Community Development Corporation  
(funding under Special Impact Program)

CAA's Active --

Jackson-Clay

Harlan County

Bell-Whitley

East Lake-Cumberland (Wayne, Clinton, McCreary Counties)

Knox County Economic Opportunity Council (KCEOC)

(affiliated with Knox County Community Development  
Corporation--KCCDC)



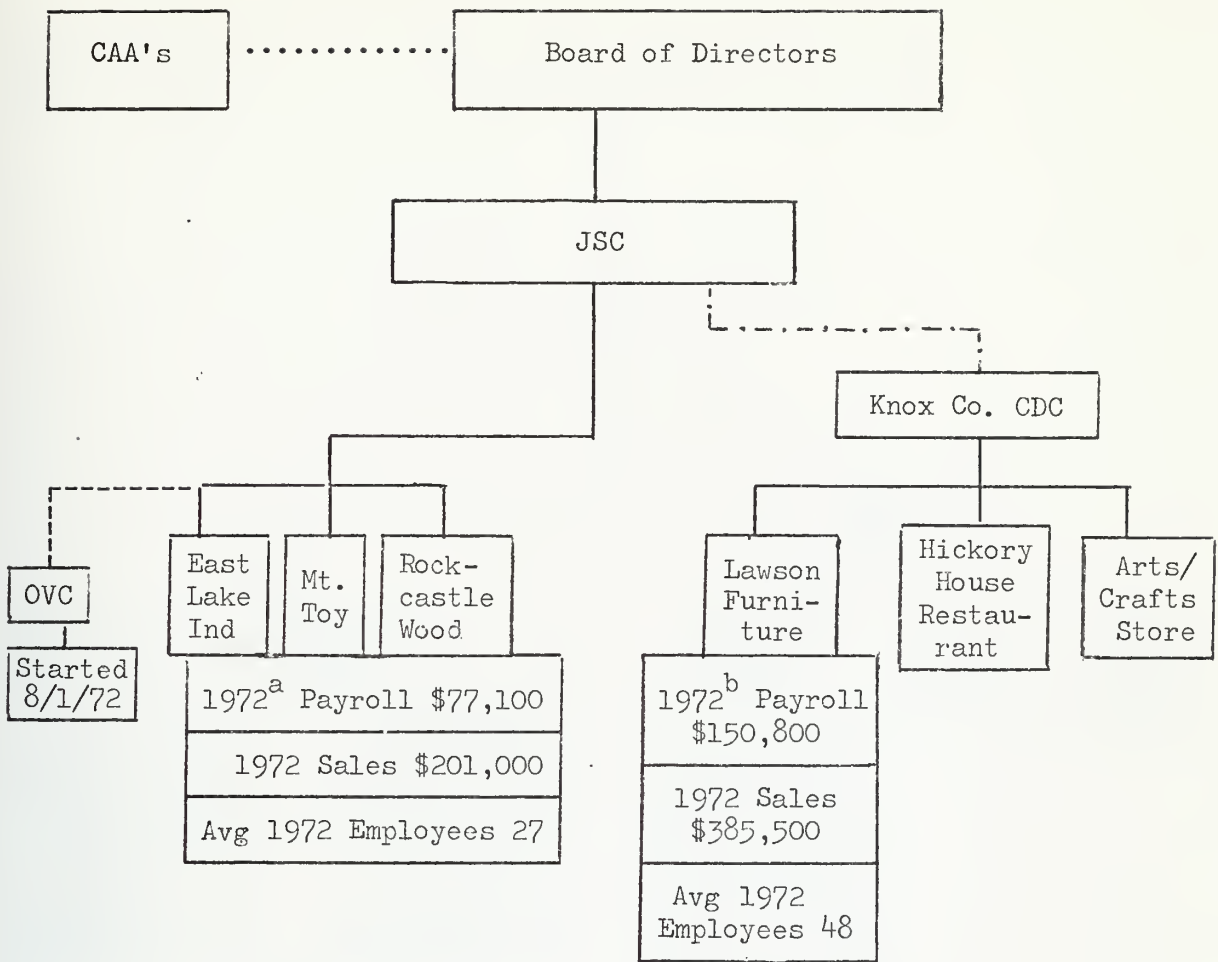


Fig. 8. JSC, December 1972

## Key:

---- JSC has minority position

.... Elects JSC Board Members

-... KCCDC affiliated with JSC

All Performance Figures FY 1972

<sup>a</sup>FY ends March 31.<sup>b</sup>FY ends December 31.



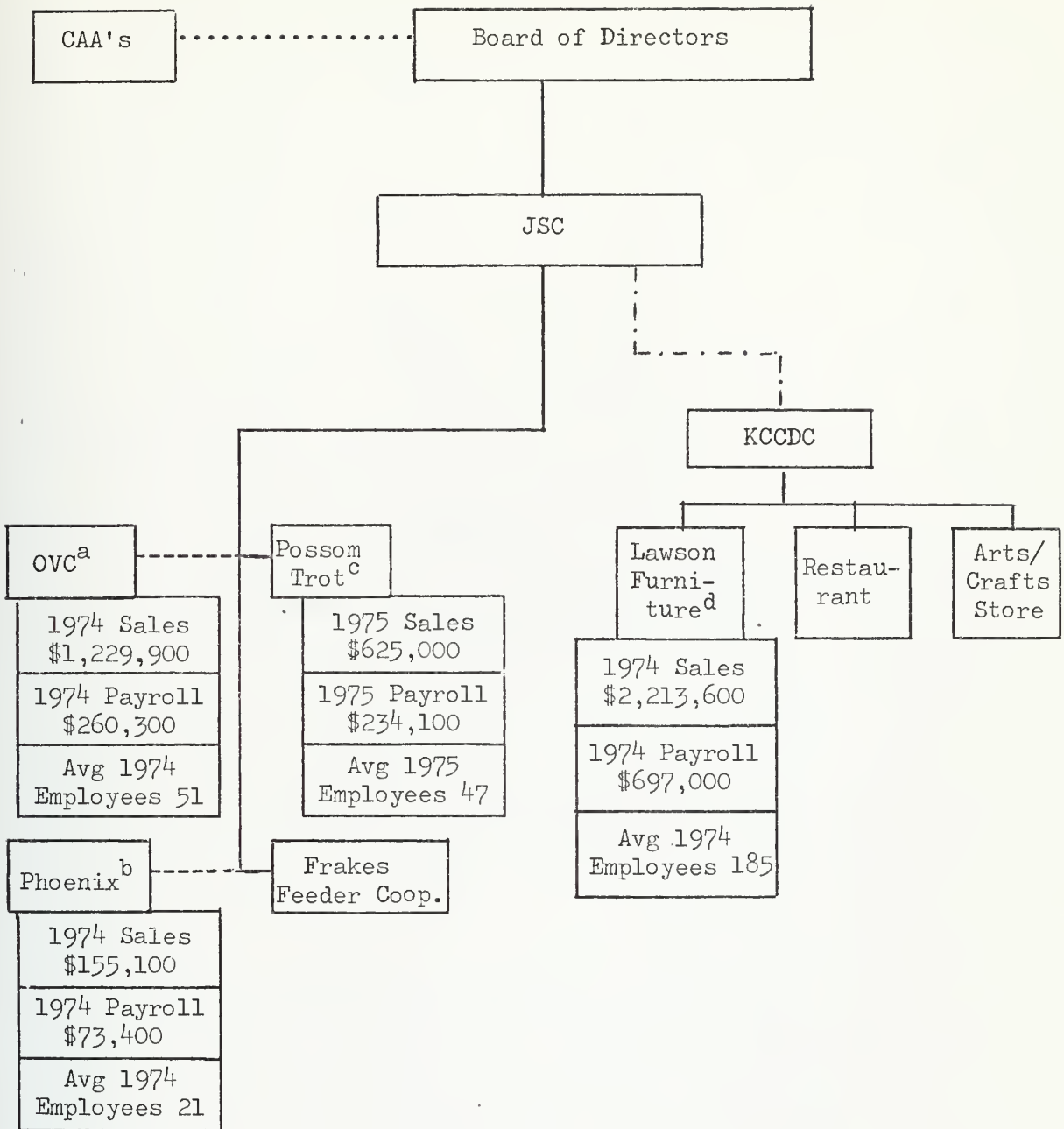


Fig. 9. JSC, March 1975

<sup>a</sup>FY ends July 31.<sup>b</sup>FY ends October 31.<sup>c</sup>FY ends March 31.<sup>d</sup>FY ends December 31.

Key:

.... Elects Board Members

-.-.- Affiliated CDC

---- JSC Minority Position



## APPENDIX C

### GROWTH AND DEVELOPMENT OF SVCDF





## GROWTH AND DEVELOPMENT OF SVCDF

For purposes of summarizing the growth in SVCDF activity, figures 10, 11, and 12 are provided. Figure 10 indicates the anti-poverty organizations in Roanoke at the time of initial SVCDF funding. Sources of other than OEO assistance to SVCDF are arrayed along the right side. All but the Edna Clark Foundation, which provided a grant of \$66,000, are either government or local resources.

Figure 11 indicates the establishment of GEMCO and BCC, in addition to the following activities:

Irongate Water and Development Corporation. Fifteen families in rural Botetourt County formed an association to expand a water system from a neighboring county into their area. SVCDF provided a \$40,000, low-interest, forty-year loan.

Impact Housing Corporation. A for-profit housing venture, this corporation built twelve low-income units in Craig County. The houses were sold under the Farmers Home Loan Administration Credit Program. SVCDF invested \$82,500, with private banks investing \$81,400.

Minority Loan programs. These represent a continuing program of assisting local entrepreneurs and



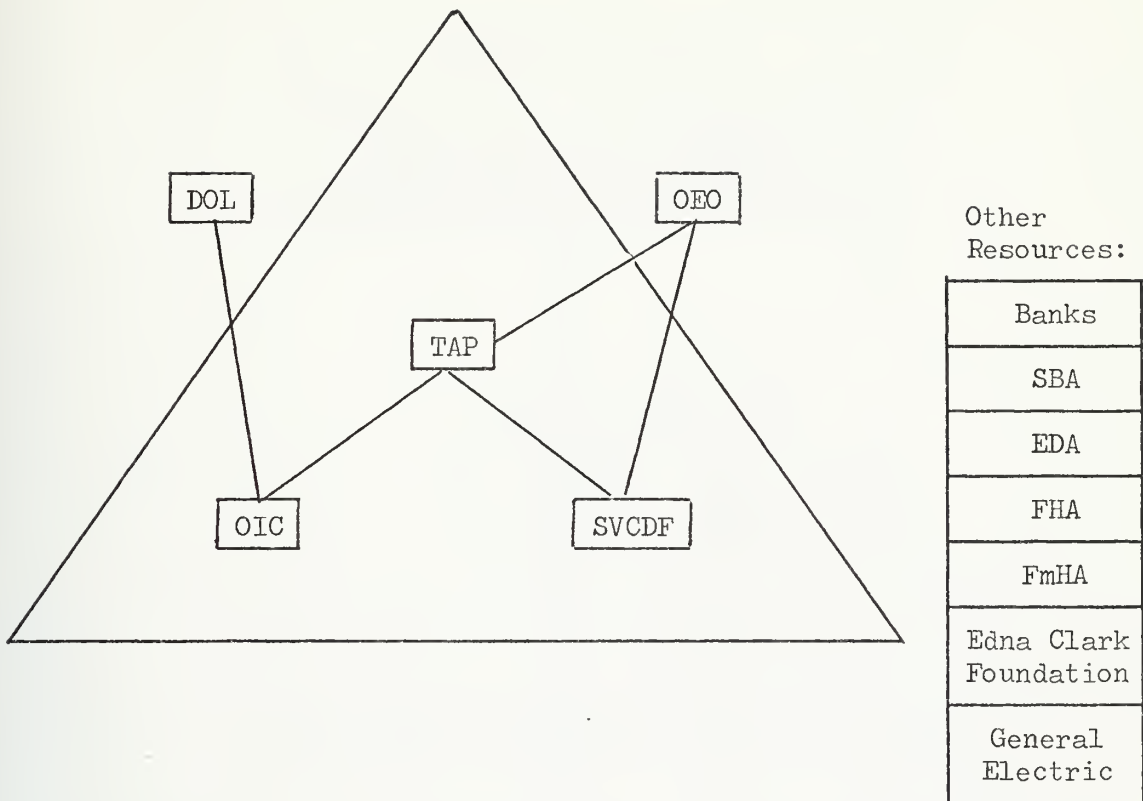


Fig. 10. Anti-Poverty Organizations,  
Roanoke, April 1969

Key:

- SVCDF -- Southwest Virginia Community Development Fund  
 DOL -- Department of Labor  
 OIC -- Opportunity Industrialization Center  
 TAP -- Total Action Against Poverty  
       (The Roanoke Community Action Agency)  
 OEO -- Office of Economic Opportunity  
 EDA -- Economic Development Administration  
 SBA -- Small Business Administration  
 FHA -- Federal Housing Administration  
 FmHA -- Farmers Home Administration



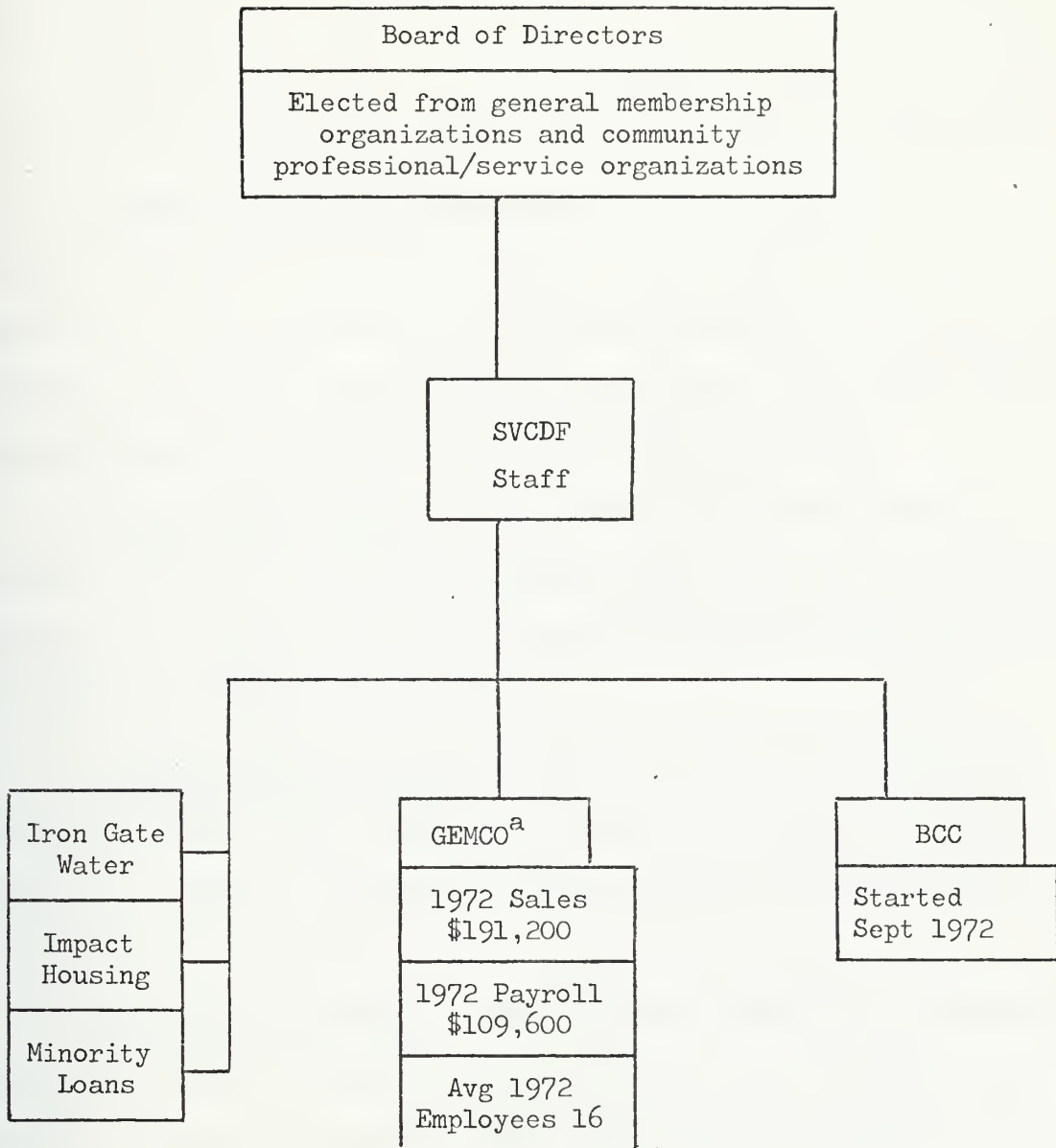


Fig. 11. SVCDF, December 1972

<sup>a</sup>FY ends July 31.



businessmen in loan packaging, involving SBA and local banks, but without SVCDF investment.

The present activity is as shown in figure 12. All three general membership organizations are now incorporated.

Craig Furniture Corporation. This is the first manufacturing activity established in the third part of the impact area. The SVCDF has invested \$385,000 and local banks \$350,000 under SBA guarantee of 90 percent. Projected first-year employment is thirty, with \$400,000 in sales.

Cherry Hill Manor. Low income apartment complex of fifteen units in Northwest Roanoke, financed by a local bank, insured and subsidized by the Federal Housing Administration. The SVCDF has invested \$11,500.

Craig Medical Clinic. Built by the Craig Improvement Association with a \$35,000 long-term loan from SVCDF. Efforts to recruit a medical doctor for the clinic have so far proved unsuccessful.

Botetourt Cannery. Built by the Botetourt Community Association with a \$17,000, ten-year loan from SVCDF, the cannery provides assistance and facilities to residents who can produce for home consumption.





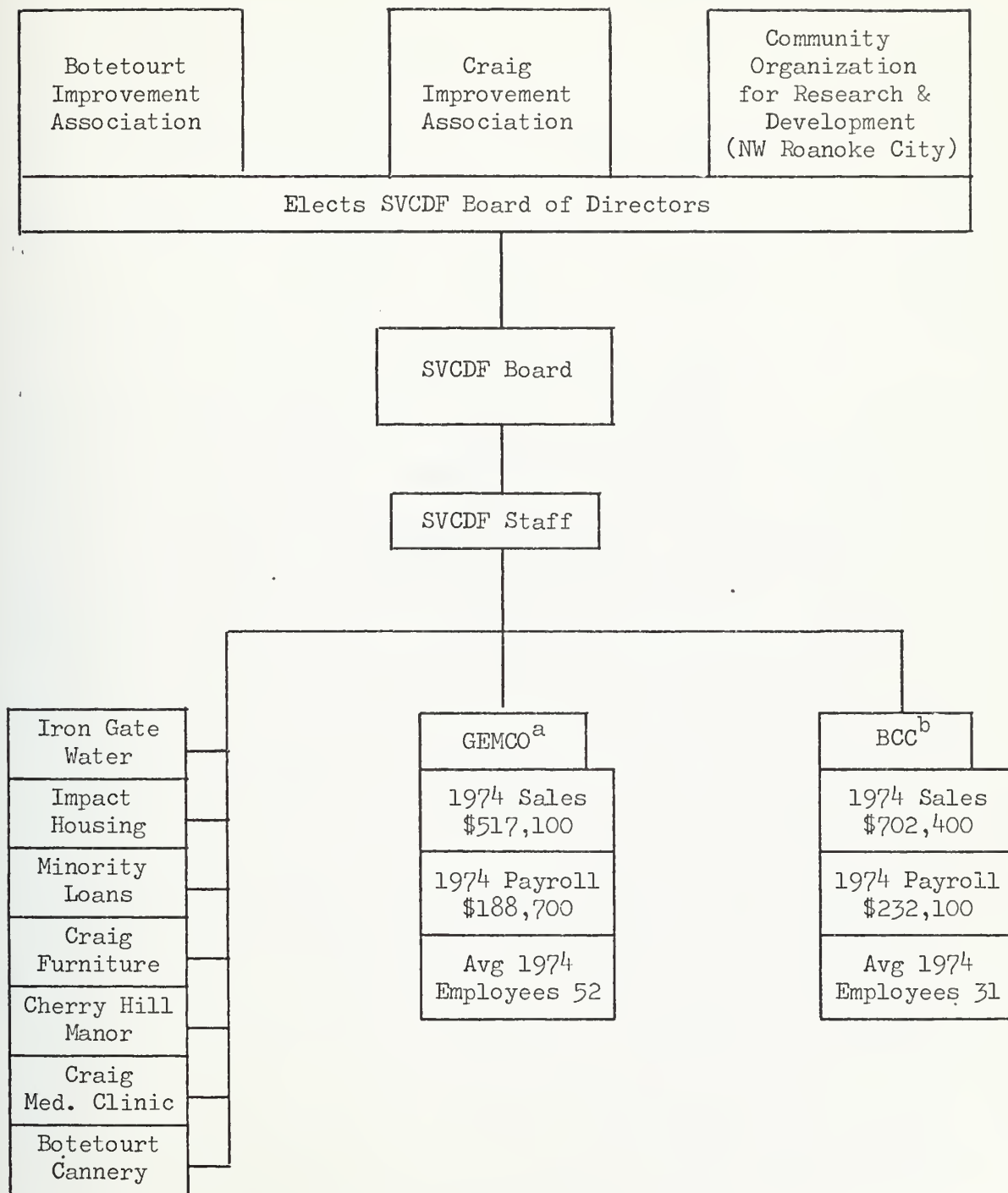


Fig. 12. SVCDF, December 1974

<sup>a</sup>FY ends July 31.<sup>b</sup>FY ends November 30.



APPENDIX D

SUPPORTING DATA



TABLE 23

VENTURE NET SALES, TOTAL ASSETS, TOTAL DEBT, AND  
 REPORTED NET INCOME BEFORE TAX BY FISCAL YEAR  
 (current dollars - in thousands)

Venture — Year Ending	Net Sales	Total Assets	Total Debt	Reported Net Income Before Tax
Poosum Trot				
3/31/75	625.0	468.1	19.1	8.0
3/31/74	481.7	503.1	50.8	20.3
3/31/73	356.9	278.3	16.0	(51.3)
3/31/72	201.0	129.0	8.3	(48.3)
Lawson				
12/31/74	2,213.6	1,345.6	394.5	(116.3)
12/31/73	1,348.4	825.3	236.2	103.0
12/31/72	385.5	238.2	24.0	83.1
12/31/71	301.7	81.4	1.5	41.9
GEMCO				
7/31/74	517.1	236.2	120.5	(16.9)
7/31/73	352.0	172.7	40.0	(2.1)
7/31/72	191.2	141.3	26.5	(27.0)
7/31/71	74.7	103.2	16.7	(56.2)
BCC				
11/30/74	702.4	536.8	400.0	(183.2)
11/30/73	378.7	425.8	350.9	(138.0)
OVC				
7/31/74	1,129.9	1,170.9	742.0	88.0
7/31/73	777.3	492.8	117.3	27.7
Phoenix				
10/31/74	155.1	217.4	94.6	(74.4)

(See Notes to Table 23, page 214.)



Notes to Table 23

## Definitions

Net Sales

Gross sales less discounts and returns.

Total Assets

Total of current and fixed assets less depreciation.

Total Debt

Total of current and long-term liabilities.

Reported Net Income Before Taxes

All expenses have been deducted except tax payments or provision for tax payments.

## Data Sources

SVCDF Ventures

All data were extracted from audited financial statements.

JSC Ventures

Phoenix and OVC data were extracted from audited financial statements.

Possum Trot data were extracted from audited financial statements except for the six-month period ending June 30, 1973 and the twelve-month period ending March 31, 1975. Unaudited statements were used for these periods. Adjustments were required to reflect a 1974 change to a fiscal year ending March 31 instead of December 31.

Lawson Furniture data are based on audits conducted June 30, 1971 and June 30, 1974, and on unaudited statements, quarterly reports submitted to OED, and other similar sources for periods not covered by audits.

Lawson Furniture represents the major business activity of the Knox County CDC and financial data of the two entities are combined. For purposes of financial statement interpretation, they are considered one entity.





TABLE 24  
GOVERNMENT CONTRIBUTIONS TO OPERATING EXPENSES  
BY FISCAL YEAR  
(current dollars - in thousands)

Venture — Year Ending	Government Contributions			Total
	Other Govt. Subsidy	CDC Technical Asst.	CDC Paid Consultant	
Possum Trot				
3/31/75	16.0	10.7	2.7	29.4
3/31/74	22.6	10.1	3.0	35.7
3/31/73	24.0	12.7	6.0	42.7
3/31/72	19.0	33.0	110.7	162.7
Lawson				
12/31/74	145.1	4.5	23.9	173.5
12/31/73	116.6	3.6	16.6	136.8
12/31/72	52.0	3.6	NA	55.6
12/31/71	37.2	3.6	NA	40.8
GEMCO				
7/31/74	16.8	3.0	12.5	32.3
7/31/73	35.0	2.3	30.2	67.5
7/31/72	11.1	1.2	5.4	17.7
7/31/71	4.8	2.3	2.4	9.5
BCC				
11/30/74	. .	2.8	17.7	20.5
11/30/73	6.6	2.8	. .	9.4
OVC				
7/31/74	0.5	4.5	. .	5.0
7/31/73	2.0	4.0	. .	6.0
Phoenix				
10/31/74	4.0	4.5	. .	8.5

NA - not available.

(See Notes to Table 24, page 216.)



Notes to Table 24

## Definitions

Other Government Subsidy

Other government subsidies are largely Department of Labor Manpower Training grants which are used to defray labor costs. Lawson Furniture also receives grants from OEO programs other than the SIP. The non-SIP funds are channeled directly through the Knox County CDC to Lawson Furniture and are used to defray all types of expenses. Detailed utilization of funds thus received is not available.

CDC Technical Assistance

The CDC staff provides technical assistance to the venture in legal, financial, production, marketing, and other problem areas as needed.

CDC-Funded Consultant Support

The supporting CDC occasionally funds the assistance of outside consulting firms provided to the ventures.

## Data Sources

SVCDF Ventures

The amounts of Other Government Subsidy were taken from the audited financial statements. The amounts of CDC Technical Assistance and CDC-Funded Consultant Support were provided by the Director of Business Planning and Research.

JSC Ventures

The amounts of Other Government Subsidy were taken from audited or unaudited financial statements as available.

CDC Technical Assistance documentation was available in a combination of man-hours and funds expended. Where only man-hours expended were available, a valuation of \$8 per hour was used through fiscal year 1974, and \$10 per hour was used thereafter.

The amounts of CDC-Funded Consultant Support were taken directly from CDC financial statements.

## Other

INED entrepreneurial search expenditures for Phoenix and OVC were defrayed by a grant from OEO. These expenditures are not included in the government subsidy or investment figures because similar venture establishment costs cannot be identified and isolated for the other ventures involved in this study.



TABLE 25

OUTSIDE AND CDC CAPITAL INVESTMENT, TOTAL GOVERNMENT  
CONTRIBUTION TO OPERATING EXPENSES, AND  
TOTAL GOVERNMENT FUNDS RECEIVED  
BY VENTURE AND FISCAL YEAR  
(current dollars - in thousands)

Venture — Year Ending	Outside Capital Invest.	CDC Capital Invest.	Total Contrib. to Operat. Expenses	Total Govt. Funds Rec'd.
Possum Trot				
3/31/75	. . .	12.9	29.4	42.3
3/31/74	. . .	101.7	35.7	137.4
3/31/73	. . .	175.6	42.7	218.3
3/31/72	. . .	104.0	162.7	266.7
Lawson				
12/31/74	. . .	250.0	173.5	423.5
12/31/73	. . .	220.0	136.8	356.8
12/31/72	. . .	. . .	55.6	55.6
12/31/71	. . .	50.0	40.8	90.8
GEMCO				
7/31/74	. . .	. . .	32.3	32.3
7/31/73	. . .	20.0	67.5	87.5
7/31/72	. . .	63.2	17.7	80.9
7/31/71	. . .	117.0	9.5	126.5
BCC				
11/30/74	. . .	265.0	20.5	285.5
11/30/73	. . .	265.0	9.4	274.4
OVC				
7/31/74	. . .	. . .	5.0	5.0
7/31/73	130.0	220.0	6.0	226.0
Phoenix				
10/31/74	92.0	105.0	8.5	113.5

(See Notes to Table 25, page 218.)



Notes to Table 25

## Definitions

Outside Capital Investment

Capital provided from sources other than the supporting CDC. Phoenix and the Outdoor Venture Corporation have capital invested by their entrepreneurs.

CDC Capital Investment

Capital invested in the ventures by the supporting CDC, the Job Start Corporation, and the Southwest Virginia Community Development Fund. A large proportion of these investments are in the form of subordinated, convertible debentures. However, the clear intention of such debentures is not debt but equity investment and is so reflected in the data. The intent of equity investment is confirmed by the executive directors of both CDCs.

Total Government Contribution  
to Operating Expenses

From Table 24.

Total Government

Total Government Contribution to Operating Expenses plus the CDC Capital Investment.

## Data Sources

The Outside Capital Investment and CDC Capital Investment data were extracted from audited and unaudited venture financial statements.





TABLE 26

CDC CAPITAL INVESTMENT, LINE OF CREDIT, AND  
LONG-TERM DEBT BY VENTURE AND FISCAL YEAR  
(current dollars - in thousands)

Venture — Year Ending	CDC Capital Invest.	Line of Credit	Long-Term Debt	Total LOC and Long-Term Debt
Possum Trot				
3/31/75	12.9	90.0	. .	90.0
3/31/74	101.7	. .	. .	. .
3/31/73	175.6	. .	. .	. .
3/31/72	104.0	. .	. .	. .
Lawson				
12/31/74	250.0	200.0	. .	200.0
12/31/73	220.0	200.0	. .	200.0
12/31/72	. .	. .	. .	. .
12/31/71	50.0	. .	. .	. .
GEMCO				
7/31/74	. .	25.0	. .	25.0
7/31/73	20.0	25.0	. .	25.0
7/31/72	63.2	25.0	. .	25.0
7/31/71	117.0	25.0	. .	25.0
BCC				
11/30/74	265.0	. .	269.5	269.5
11/30/73	265.0	. .	280.0	280.0
OVC				
7/31/74	. .	900.0	350.0	1,250.0
7/31/73	220.0	300.0	. .	300.0
Phoenix				
10/31/74	105.0	117.0	. .	117.0

(See Notes to Table 26, page 220.)



Notes to Table 26

## Definitions

CDC Capital

CDC capital investment in ventures, including convertible debentures.

Line of Credit

As negotiated by the venture and its supporting banks.

Long-Term Financing

Includes debts incurred for periods of one year or longer. OVC and BCC have both incurred long-term debt of major proportions. Both loans carry a 90 percent SBA guarantee. The loan granted to BCC was originally for \$280,000, and the loan to OVC was for \$350,000.

## Data Sources

SVCDF Ventures

Data were provided by the deputy director from CDC records.

JSC Ventures

Data were provided by the director of finance from CDC records.



TABLE 27

AVERAGE ANNUAL EMPLOYMENT AND ANNUAL PAYROLL  
BY VENTURE AND FISCAL YEAR

Venture — Year Ending	Average Annual Employment	Annual Payroll <sup>a</sup>
Possum Trot		
3/31/75	47	234.1
3/31/74	67	233.8
3/31/73	52	148.8
3/31/72	27	77.1
Lawson		
12/31/74	185	697.0
12/31/73	125	437.5
12/31/72	48	150.8
12/31/71	34	108.8
GEMCO		
7/31/74	52	288.7
7/31/73	41	214.9
7/31/72	16	109.6
7/31/71	15	87.2
BCC		
11/30/74	31	232.1
11/30/73	27	170.6
OVC		
7/31/74	51	260.3
7/31/73	41	173.8
Phoenix		
10/31/74	21	73.4

<sup>a</sup>Current dollars - in thousands.

(See Notes to Table 27, page 222.)



Notes to Table 27

## Definitions

Average Annual Employment

The average annual employment was computed from the quarterly average employment levels.

Annual Payroll

Total payroll levels, including base, fringe, and incentive pay.

## Data Sources

SVCDF Ventures

Average employment and annual payroll figures were provided by the director of business planning and research.

JSC Ventures

Average employment and annual payroll data were extracted from the Quarterly Monitoring Reports or provided by the director of finance, except as noted below.

Lawson Furniture payroll levels for 1971 and 1973 were estimated on the basis of average employment and fringe benefit levels, and the minimum wage then in effect.





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